

NEW ENTERPRISE IN THE SOUTH PACIFIC

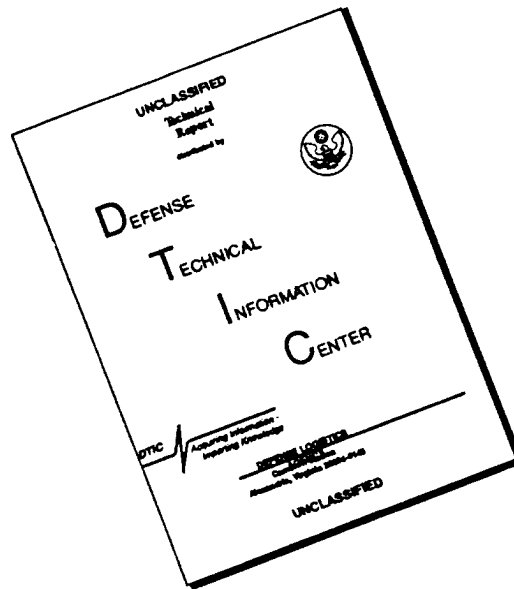
Paul F. Gardner



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Cover art and design by Lancelot W. Tyler. Indonesia is represented by a shadow puppet of *Judistira*, the ‘just king’ of the Javanese Ramayana epic; and Melanesia by a carved spirit figure from the Sepic region of Papua New Guinea.

**New Enterprise in the South Pacific:
The Indonesian and Melanesian Experiences**

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The Indonesian and Melanesian Experiences**

Paul F. Gardner



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FOREWORD

In the South Asia-Pacific region today, the pace of change is dizzying: nations struggle to maintain law and order while they mesh their traditional systems with modern, democratic parliamentary norms. Falling into this category are the island nations of Indonesia and Melanesia, which occupy important strategic locations relative to our ally, Australia, and astride critical sea lines of communication.

Against this background of change, Indonesia's power and influence have increased, and Papua New Guinea (the leading Melanesian state) has begun to tap its rich mineral reserves. Combining extensive research with his long experience in the region, Ambassador Paul Gardner examines the traditional cultures of the Indonesian and Melanesian peoples who are striving to adapt to modern market economies. He describes the idiosyncratic ways by which both cultures, with marked flair, have modernized their economies.

In this scholarly analysis, Gardner chronicles the difficulties, pitfalls, and triumphs of two peoples in transition to the modern world. Elsewhere in the world, other nations are experimenting in other ways with the market system, reminding us of the flexibility and resiliency of that system. We are pleased to publish this study of events that have an important bearing on security in the Asia-Pacific region and beyond.



BRADLEY C. HOSMER
Lieutenant General, US Air Force
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PREFACE

The dramatic changes Indonesia and Melanesia have undergone over the last quarter of a century can confound the mind of an outside observer. On returning to the area after an absence of a few years, a Westerner is likely to wonder whether he is in the same country and among the same people he knew previously.

Visitors arriving in Jakarta in 1964, as my family and I did, found themselves in a steaming, dirty, and crowded airport terminal. To exit, it was necessary to pass through a battery of customs and immigration officials, whose work flow was quite clearly governed by a succession of small bribes. The slow drive into the city over badly potholed roads skirted a Dutch-built canal openly used as both toilet and bath by thousands of homeless. It then passed by huge statues in the Soviet heroic mold extolling Sukarno's revolution against imperialism and neocolonialism. Western Ambassadors' residences in the city's prestigious Menteng district faced a once proud park which had become a trash-strewn lot occupied by beggars during the day and prostitutes at night.

To a new American observer, Sukarno's Revolution clashed with the cultural background. Its heroic statuary, militant marches, and strident oratory clearly had not descended from the delicately beautiful sculpture, gamelan music, classical dance, and puppet theater of traditional Java. More important, its leaders preached class struggle while Javanese culture taught tolerance and avoidance of inter-personal conflict. Western experts liked to point out, however, that Javanese traditions also taught submission to established authority and to one's fate, and Sukarno seemed to have power and the nation's fate firmly in his hands. Those secretly opposing him dared not speak openly, and students whose former association with Western nations made them suspect felt obliged to demonstrate against the American Embassy to prove their revolutionary mettle.

Events beginning on 1 October 1965 disproved the inevitability of Sukarno's revolution and drew a boundary between two Indonesias. The Indonesian Communist Party on that date sought to remove the last obstacles to its assumption of power by assassinating the Army leadership. Instead, it unleashed immense counter-forces which no Americans and probably few Indonesians knew existed. Among them were thousands of students who played a central role in unseating Sukarno. These forces eventually introduced the country cautiously to the world market system.

Visitors returning to Indonesia in 1976 as my family and I did passed through a modern, spacious, air-conditioned terminal building and were carried by a new super highway past modern skyscrapers rising from what had been open fields before. The Menteng park was carpeted with grass and flowers and equipped with clever statues of animals for children to climb. A former leader of an anti-American demonstration was teaching American English on television. Other former students who had found their careers blocked by Sukarno were editing the leading magazine and newspapers, beginning new law firms, designing the government's development and education policies, and entering the ranks of executives in large multinational firms.

On closer look, one could detect the old Jakarta beneath the new. A Pakistani at the airport escaped customs inspection by inserting a wad of bills into the passport he handed officials. There were still many homeless along the banks of canals, and behind the handsome high rise buildings the shacks of the poor still clustered tightly together in densely populated compounds. But the city had built public toilets and baths on the canal banks, and had begun to link compounds with water and electricity.

Visitors to Jakarta today land at still another airport, a very sumptuous one with a new bribe-free customs system. They travel over still another limited access highway flanked by modern high rise buildings that had not existed in the decade before. They find the students who demonstrated against Americans and then against Sukarno have been promoted to presidents of companies, publishers, senior partners in the top law firms, and even to cabinet ministers.

Neighboring Melanesian nations, which have a strikingly different cultural heritage and political history, have undergone a

similar and in many respects an even more dramatic transformation. Historical snapshots are not necessary to appreciate the extent of change since it is clearly evident in the lives today of such people as the Highlanders of Papua New Guinea. Many of these enterprising people, who were technologically in the stone age when they met their first Westerners in the 1930s, are today competently following all the professions of the modern computer age in cities little different from those in Australia and the United States. Not far away, other Highlanders armed with axes, spears, bows, and arrows, still engage in the tribal warfare of their ancestors.

Experiences in Indonesia and Melanesia gave me new pride in the enormous diversity, resourcefulness, and adaptability of our species. They also added to my respect for the market system as an instrument of development. Prospering in the rapidly changing world market environment has in recent years proved difficult even for its charter members. The Indonesian and Melanesian peoples are among its newest initiates, and their histories provided them little preparation for membership. Early judges of market potential, in fact, placed both among those least likely to succeed. In their very separate ways, however, each has done remarkably well.

When such admiration is expressed to those Indonesians and Melanesians who have brought about these changes, they are often inclined to disagree. They have traveled day by day on a journey which foreigners such as I have only monitored at widely separated intervals. They find much that is wrong with the performance of their national economy and with the market system in general. Economic growth has not only brought new problems but has failed to cure old ones, they point out. While market competition has increased creativity, cronyism still offers greater economic rewards in their countries, they might claim, and the gap between the haves and have-nots within the world market economy may be widening. I accept the validity of these concerns. The fact they are being forcefully expressed, however, gives hope that the factors behind them will change.

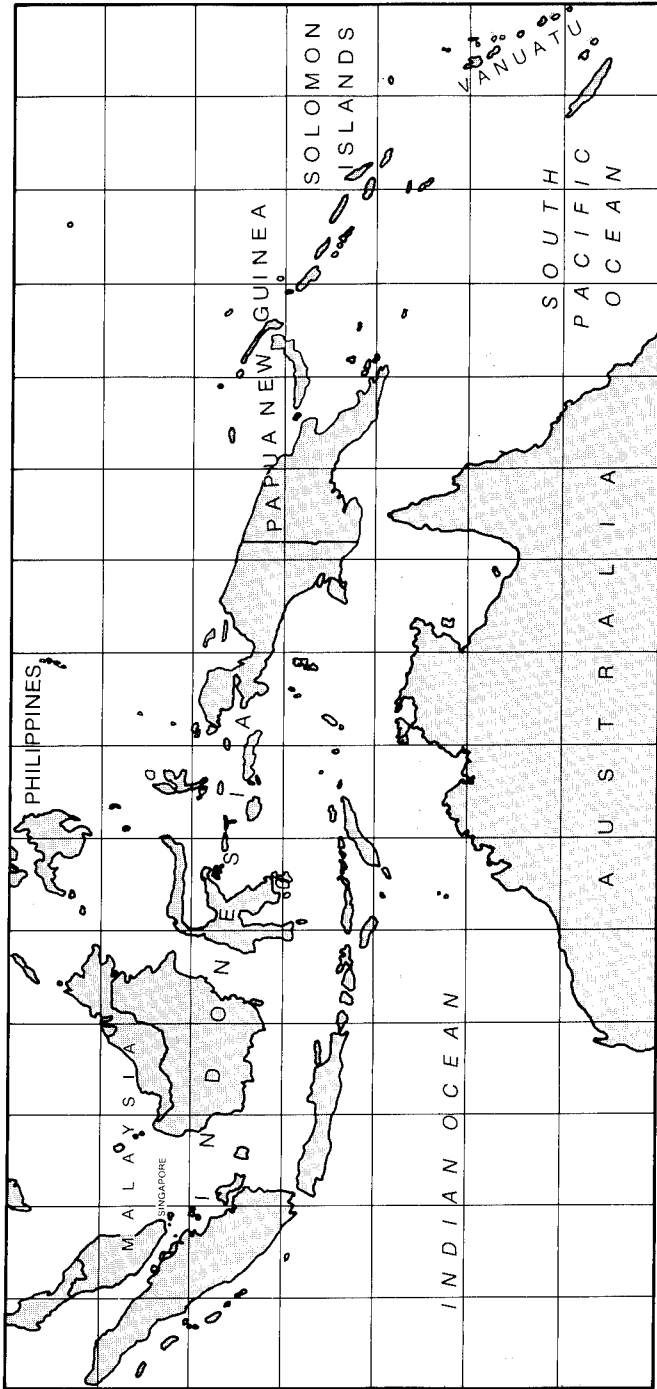
This small volume is an effort to describe and, when possible, to explain the experiences of Indonesians and Melanesians which have given observers within and outside the region pride, concern, and hope. It draws not only on my own experiences but on those of other observers trained in the special disciplines bearing on economic development and cultural change. While this volume has often relied on their insights, its shortcomings are wholly my responsibility.

Special appreciation is due Professors Andrew Strathern and Ben Finney for introducing me to Papua New Guinea Highlands societies and their businessmen and for reading an early version of my manuscript. Charles Lepani has been my principal guide on the Papua New Guinea economy. The works of Ambassador Soedjatmoko, Professor Koentjaraningrat, and Professor Clifford Geertz have been trusted guides to cultural change in Java. I have relied heavily on many fine economists who have recorded and interpreted Indonesian events and on the advice of Dr. Ben Fisher and Dr. Bernard Bell of the World Bank and several good friends in the US Agency for International Development. Mr. Roni Kohor of the Library of Congress helped direct my research. Many National Defense University friends, including particularly Dr. Dora Alves, Dr. Fred Kiley, and Mr. James Gaston, assisted greatly in transforming this material into a text. I would like to thank a talented artist, Lancelot W. Tyler, for bringing Indonesia and Melanesia together on the cover.

I owe deepest gratitude, of course, to the policymakers, managers, and entrepreneurs who gave me something to write about and who are individually listed in the text. Some of these are close personal friends and others I still look forward to meeting. To preserve impartiality and objectivity, I have used publicly available and widely accepted material to document their accomplishments.

New Enterprise in the South Pacific:
The Indonesian and Melanesian Experiences

INDONESIA AND MELANESIA



1: A MARKET FOR ALL SOCIETIES?

The market for free market concepts has never been stronger. The developing world's largest and longest sustained economic growth rates during the past two decades have been registered by countries relying principally on market forces. This has lent credence to the world market system's claim to be the most powerful "engine of growth" for those societies able and willing to adapt to its environment. Even socialist states for whom the market was previously anathema are today openly borrowing market methods. First China and lately the Soviet Union have cautiously begun to unleash the forces of supply and demand in selected sectors of their economy, causing intense speculation over the future course of their giant societies.

However, other voices of considerable influence in the Third World continue to question the degree to which less technologically advanced societies can rely on the world market system. The remarkable records of the Republic of Korea, Taiwan, Singapore, and Hong Kong, they point out, are matched by the failure of many other countries to break out of debilitating dependency on the market's industrialized members.

Economic progress in the Third World has indeed occurred unevenly, and it has often been accompanied by discomfiting change. It is thus understandable that the free market does not always enjoy an attractive image among Third World societies. Since the days of the classical economists, the market has often been billed as an impartial mechanism operating on unyielding principles of supply and demand, a mechanism which not only rewards the industrious and efficient but punishes the inefficient and backward. This image perhaps instills in some the discipline and objectivity required for successful competition, but it is threateningly alien to peoples accustomed to the warmth and security of village and extended family relationships. And, when this impersonal machine is said to be fueled by man's greed, rejection impulses can be quite strong.

The principal argument of the market's ideological opponents is not that it is an impersonal machine, of course, but that greed leads its strongest players to dictate market rules disadvantageous to the weak. Prominent economists of both non-Marxist and Marxist persuasion have argued that the current world market system has set terms of trade perpetuating widespread Third World dependency.

Proponents of the market system find images of a coldly impersonal or intentionally biased machine grossly misleading. Although impartiality is important to the efficient working of any market—be it in the village, on Wall Street, or in international trade negotiations—an equally important element is trust. And trust is seldom impersonal. The successful peddler is well known to his neighborhood. Successful companies make their brands “household words.” And successful trade negotiations are built on the participants’ confidence in each other. Injustices which have occurred, market supporters point out, can most often be traced to violations of the trust and economic principles upon which the market system relies. They can cite instances of growth attributable to aid flows, debt rescheduling, private foreign investment, and trade to show that the world market system has become an interdependent community as well as a mechanism—a source of security through cooperation as well as efficiency through competition.

While we shall leave theoretical debates to development economists,¹ certain questions seem well worth addressing here: Are the successes of Asia’s so-called “Gang of Four”² (the Republic of Korea, Taiwan, Singapore, and Hong Kong) creating undue optimism regarding the market system’s ability to help less technologically advanced nations, just as the recovery of European nations benefiting from the Marshall Plan created unrealistic expectations for post-World War II aid programs? Can tropical, agricultural societies, which comprise the bulk of the world’s poor nations, use the world market as successfully as rapidly industrializing, export-oriented countries such as Korea and Singapore have done? And would these tropical societies want to pay the necessary costs in terms of changes to their traditional cultures?

These are complex, important questions. No responsible policymaker can afford to ignore them, yet no simple application

of political or economic theory yields satisfactory answers. Case histories in which culture is a salient variable offer, however, a productive way to address them.

Cultures and the Market

Economists focusing on development seem over the past three decades to have gained increasing respect for the importance of traditional cultures.³ At times, perhaps, this unquantifiable factor has been a convenient culprit for the lackluster predictive records of economic theories, but few would deny that traditional customs and values have much to do with the effectiveness and the acceptability of a free market system.

Cultural variables are the focus of this study. In the experiences of two neighboring but culturally very different peoples, the Indonesians and the Melanesians, we shall seek answers concerning the appropriateness of the free market as an engine of growth for tropical, agricultural societies. Aspects of their culture, geography, and market goals make the cases of Indonesia and Melanesia especially inviting.

First, the Indonesian and Melanesian traditional cultures form dramatic contrasts. Their attitudes toward competition and cooperation, in particular, lie at opposite ends of the human spectrum. As a consequence, they have in many respects followed widely diverging paths toward their economic and political goals. Their participation in the world market economy, then, can be seen as a revealing test of its sensitivity to cultural diversity.

Second, Indonesia and Melanesia differ markedly in size. Indonesia is a large nation—the fifth most populous on earth—and a sizeable market in itself. Melanesia, on the other hand, is a group of islands with scarcely more than one-fiftieth of Indonesia's population. These islands are divided into three nations (Papua New Guinea, Solomon Islands, and Vanuatu)⁴, two dependencies (New Caledonia and Irian Jaya), and even more tiny markets. Indonesian and Melanesian experiences in the world market system, therefore, comprise also a test of its ability to accommodate economies of widely varied scale.

Third, Indonesia and Melanesia are similarly endowed in natural resources. This common factor gives added prominence to their differences in culture and size.

Fourth, in their approach to the market Indonesia and Melanesia have in some respects followed courses similar not only to each other but to those of the rapidly industrializing societies of Hong Kong, Singapore, Korea, and Taiwan, with whom they differ markedly in regard to resources, culture, and size. Economic strategies of the "Gang of Four" relied principally on private enterprise, for example, but also assigned an important role to government.⁵ Similarly, the histories and economic structures of Indonesia and Melanesia inclined those societies toward a mix of governmental and private initiative. Further, in both Korea and Taiwan, initial strengthening of the agricultural base aided industrialization. Indonesia and Melanesia have had even more reason to emphasize agriculture: it employs three-fourths of their populations, and generally equitable land distribution spreads benefits widely. Indonesian and Melanesian experience might, therefore, help define approaches useful to a broad range of Third World societies.

Finally, Indonesia and Melanesia, again like the "Gang of Four," have used the market system to attain security as well as economic goals. The Republic of Korea and Taiwan faced in their early years severe threats from neighboring communist regimes, and Singapore and Hong Kong bordered on far larger and at times unfriendly nations. While American and British security guarantees were initially crucial, domestic economic growth added significantly to their security. Equally important, trade and investment ties with the major market economies served to discourage potential aggressors. Security concerns also helped draw Indonesia and Papua New Guinea, Melanesia's largest nation, toward the world market system. This aspect of market relationships deserves special attention.

For all of these reasons, then, Indonesia's and Melanesia's adaptation to the world market offer important insights into the development process. Their experiences provide answers—not definitive answers, of course, but instructive ones—to the question of the appropriateness of the world market for tropical nations. Their experiences also offer guidelines for those wishing to strengthen the market system as an engine of growth.

In analyzing how Indonesia and Melanesia have performed in the market system and how the system has performed for them, we

will, as earlier stated, focus less upon theory than upon indigenous cultural forces and the histories that shaped them. We might best begin by examining the physical environment from which these cultural and historical forces emerged.

The Legacy of Geography

As neighbors, Indonesians and Melanesians share common geology along with the opportunities and constraints it imposes. They live on islands created by the Australian plate plunging beneath the Pacific. Agricultural products from their rich volcanic soils first introduced them into world markets and continue to be a mainstay of their economies. Volcanoes rising out of tropical seas have also given both areas some of the world's most beautiful scenery and thus promising tourist industries. Their most important economic links with the industrialized world today come, however, from a third product of their geology, minerals. Indonesia has relied on oil for approximately 60 percent of its exports over the past five years, and Papua New Guinea, which has 84 percent of Melanesia's people, has drawn half of its export earnings from gold and copper. The two other Melanesian nations have as yet unexploited but promising mineral deposits. The extraction of these minerals and the construction of processing and, in Indonesia, upstream industries have required technology and capital well beyond domestic capabilities. These and other minerals should continue to figure importantly in the economic future of both regions, for which they hold out problems as well as promises.

Living at the juncture of oceanic and continental plates has disadvantages as well. Sea, mountain, and jungle barriers have divided people into culturally and economically isolated groups. Indonesia has over 300 ethnic groups and 250 distinct languages. Melanesia sets a world record with over 1,000 languages for less than four million people.⁶ Not surprisingly, Indonesia and the three Melanesian states have all faced extraordinary challenges in "nation-building." These have included serious secessionist threats drawing strength from fragmented economies as well as from ethnic and linguistic differences.

The basic differences between Indonesians and Melanesians can also be traced to geography. Indonesia's main islands are

located on sea routes between the ancient world's greatest concentrations of population. Man's discoveries and creations booked early passage through its straits. Among them was wet rice, which was an established crop in Java over 1,200 years ago. This storable and nourishing grain permitted the establishment of densely populated kingdoms. By the seventh century, when Europe was in its dark ages, one of these, Srivijaya on the island of Sumatra, had through its maritime power established an empire with territory stretching well onto the Southeast Asian mainland and trade reaching China, India, and beyond. In the eighth and early ninth centuries the Javanese agricultural kingdom of Mataram constructed some of man's most beautiful monuments. By the fourteenth century Indonesian cities had populations of 30,000 to 100,000, rivaled only by Paris and Naples in Europe.

Influences from the outside world, while allowing Indonesia to unite its ethnically fragmented population into great kingdoms, also brought diversifying forces. Prominent among these were succeeding waves of the world's principal religions. The divisions created by these religions imposed on ethnic and geographical cleavages have, as we shall see, led to considerable variation in Indonesians' adaptation to market forces.

The Melanesian islands are distant from foreign population centers and trade routes, separated from each other by long stretches of water, and internally fragmented by exceedingly rough terrain. The few ships calling there prior to the nineteenth century often met hostile receptions. Agriculture existed in the Papua New Guinea Highlands 9,000 years ago, well before the earliest archaeological evidence of agriculture in Southeast Asia.⁷ The staple crop, however, has remained perishable sago and tubers (yams, taro, and, more recently, sweet potatoes). Until the creation of towns by European colonists, population centers rarely exceeded 250 inhabitants, and some relatively densely populated areas of the Papua New Guinea Highlands had no villages at all. The largest permanently organized units, now generally called clans, numbered less than 1,000 members. And they were frequently at war with their neighbors. Warfare was indeed as important as terrain, language, and agriculture in fragmenting the region into tiny social units.

Only one world religion, Christianity, penetrated Melanesia, and it has been there less than 150 years. Despite some rivalry

between sects, it has been generally an important unifying factor on the national level and among the three Melanesian states.

Largely because of its central geographical position, Indonesia had an early, long, and comparatively bitter experience with Western colonialism. Melanesia's experience, on the other hand, was relatively late, short, and benign. The colonial administrations and allied Western commercial interests adapted many of the two regions' physical resources to the world market, introducing important new plantation crops and initiating large-scale mineral exploitation. They left a moderately large economic infrastructure behind. Both the Indonesian and Melanesian colonial legacies in education and skills, on the other hand, were exceedingly meager, as we shall see in Chapter 3. Human adaptation to the world market economy consequently began in earnest only in the post-colonial era—and from a base of traditions to which most market behavior was decidedly alien. Before examining the processes by which these two very different cultures are adapting to the world market system, I will outline how I have chosen to simplify and organize that task.

Cross-cultural comparisons between two entities together containing over 1,200 individual ethnic/linguistic groups pose difficult choices. To simplify matters, but at some risk of distortion, we shall focus principally on the Javanese to represent Indonesian culture. As the largest ethnic/linguistic group, they have strongly influenced the other groups and play the central role in the nation's government if not, perhaps, in its commerce. Among Melanesians, the vast majority are Papua New Guinean peoples. We shall pay particular attention to two of them, the Tolai of New Britain and the New Guinea Highlanders, as the first and the last Papua New Guinean groups, respectively, to come into sustained contact with industrialized countries. The Highlanders and the Javanese probably provide stronger contrasts both in the structure and the values of their societies than would comparisons between any other Melanesian and Indonesian ethnic groups. They might, in this regard, be considered polar by some scholars but atypical by others. One should, in any event, keep in mind that many other groups in these decidedly pluralistic societies also play significant roles. Among them are about one million Indonesians who speak languages and retain customs closer to those of Papua New Guinea than Java and well over half a million Melanesians who

speak languages belonging, like Javanese, to the Austronesian family. To give each of these many groups its due would, however, carry us far beyond the modest scope of this study.

Because our purposes are both to compare the very different experiences of Indonesia and Melanesia and to employ these experiences as a test of the market system, I have chosen to arrange the sections of this book in a chronologically and topically oriented series of comparisons.

Chapters 2 and 3 will describe the roots of cultural attitudes toward cooperation and competition in Melanesia and then in Indonesia. Chapter 4 will compare Indonesian and Melanesian traditions in trade prior to their entry into the world market. Chapters 5 and 6 will describe efforts of the Indonesian and Melanesian governments to match these cultural and historical endowments to their nations' economic goals. Since market success ultimately depends more on businessmen than governments, Chapters 7 and 8 will address the emergence of entrepreneurs and managers in the two societies. The concluding chapter will assess the investment Indonesians, Melanesians, and other nations have made in bringing these tropical societies into the world market system. It will then examine the progress toward their economic and security goals and address the relative successes and failures of the market in adapting to the needs of developing countries.

ENDNOTES

1. The most prominent of non-Marxist development economists have presented their views in terms suitable for laymen in the two volumes of Meier (ed), *Pioneers in Development*.

2. One of the mysteries of popular press numerology is how a label first applied to four Maoist ideologues came to denote Asian countries and, as we shall see later, Papua New Guinea policymakers of a decidedly pragmatic, market-oriented bent.

3. Recollections compiled by the World Bank of the most prominent theorists in economic development are interesting in this regard. See in particular Lord Bauer, "Remembrance of Studies Past: Retracing First Steps," Gunnar Myrdal, "International Inequality and Foreign Aid in Retrospect," Paul

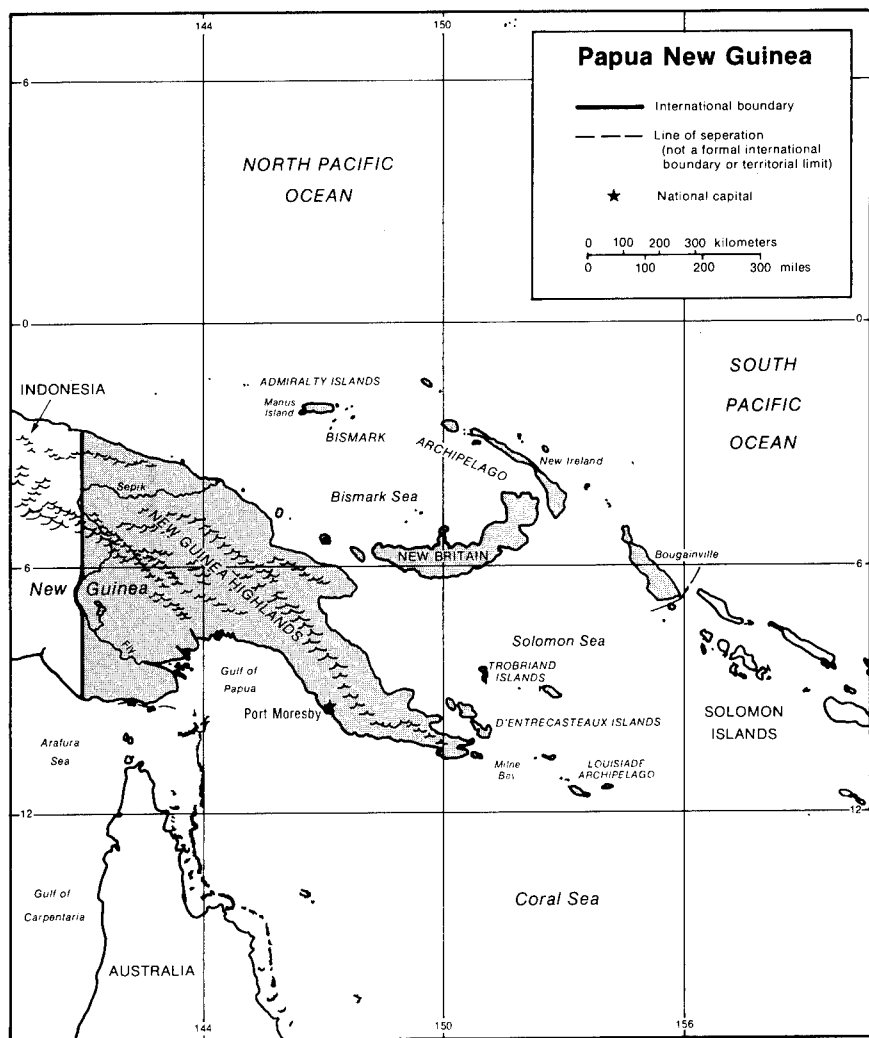
Rosenstein-Rodan, "Natura Facit Saltum: Analysis of the Disequilibrium Growth Process," Walt Rostow, "Development: The Political Economy of the Marshallian Long Period," and Jan Tinbergen, "Development Cooperation as a Learning Process" in Meir and Seers, eds., *Pioneers in Development*, pp. 32-36, 154-158, 220, 236-237, 321-322, 328-329.

4. Most Pacific islanders now define Melanesia by the traditional social organization of its inhabitants rather than their physical traits. Fiji is, therefore, commonly excluded by Pacific islanders although often included by Westerners. We will follow Pacific island usage, focusing on the three independent countries of Papua New Guinea, Solomon Islands, and Vanuatu.

5. For a discussion of the role of public policy in the "Gang of Four's" export successes, see Colin I. Bradford, Jr., "NICs and the Next-Tier NICs as Transitional Economies" in Bradford and Branson, eds., *Trade and Structural Change*, pp. 173-200.

6. Bellwood, *Man's Conquest*, p. 89, and S.A. Wurm, "Papuan Languages" in May and Nelson, eds., *Melanesia Beyond Diversity*, p. 226.

7. Jack Golson, "Kuk and the History of Agriculture in the New Guinea Highlands," in May, ed., *Melanesia Beyond Diversity*, p. 297.



2: COMPETITION AND COOPERATION IN MELANESIA

The attributes enabling a society to compete successfully in a free market environment are not easily defined without cultural bias since success stories are still limited in extent and number. It has been fashionable in the past to attribute the West's initial lead in industrialization to such factors as a concept of progress, a belief in man's ability to change his environment, and the Protestant work ethic. Many of today's market economists, however, sound a bit like Eastern philosophers when they advocate not so much changing man's environment as understanding and relying upon those efficient forces which have naturally evolved within it. Further, societies earlier thought to lack a work ethic have in time shown they only lacked economic incentives or faced disincentives stemming from alterable misconceptions or customs.

The two nations now leading the world market have, as we know, very different cultural approaches. Americans' frontier traditions, bad experiences with monopolies, early successes with mass production, and immense natural resources have led them to place strong emphasis on individualism, competition, and catering to mass consumption. Indeed, Americans seem at times to have stressed these basically healthy traits to the point of creating uneconomic adversary relationships and occasionally unmanageable deficits. The Japanese, on the other hand, have placed greater emphasis on teamwork and savings because of their quite different traditional values, their lack of physical resources, and the need to close the gap that once separated them from the first industrialized nations. They, too, appear at times to have carried good habits too far. Both nations may now be narrowing these differences. One can detect in the societies of Asia's "Gang of Four" fortuitous blends of the characteristics which best served the Japanese and Americans.

For lack of a better model, let us specify an ideal mix of the traits serving successful market competitors in the past as optimum

assets for later arrivals to the world market system. The societies most likely to succeed would accordingly be those with:

- Sufficient competition and social mobility to allow the forces of supply and demand to allocate tasks and resources to individuals, companies, and sectors able to do the most with them at the least overall cost, in accordance with the principles of specialization, division of labor, and comparative advantage.
- Sufficient decentralization to promote the individualism, innovation, and risk-taking associated with entrepreneurship.
- Sufficient cooperation and centralization, on the other hand, to achieve economies of scale, the efficient aggregation of savings and investment, and the teamwork required to compete effectively in an international arena.
- Openness to the external environment in order to perceive changes in the market and other societies' innovations.
- Social cohesion and leadership to permit efficient adaptation to these changes and rapid assimilation of appropriate foreign innovations.

To succeed in the market, then, each society must find a workable balance of competition and cooperation, of centralization and decentralization, of openness and internal cohesion. For Melanesians, attitudes regarding these matters are rooted deep within the cultural histories of their clans.

Cooperative Warriors

The warmth and openness of Melanesians today makes it difficult for Westerners to envision the very different reception which the earliest visitors to their islands recorded two and a half centuries ago. Virtually all were met with arrows and spears launched by what one explorer, Philip Carteret, called "desperately daring, warlike people." Although Melanesians today would undoubtedly be ranked among the more peace-loving people in the world, warfare in fact shaped the daily lives of most until the last decades of the past century. It is a recurring phenomenon even today among many clans of Papua New Guinea's Highlands. The waging of war and the making of peace among these Highlands clans seem to be

well preserved relics—even to weaponry—of many practices common to other Melanesian people in an earlier age.¹ They, therefore, can throw light on today's forms of competition and cooperation throughout Melanesia.

Tribal warfare as observed in the New Guinea Highlands over the past four decades has involved competition and cooperation at all levels of the society. In the subclan, all men vie to excel as warriors. Subclans compete most often as subunits of the same clan team but occasionally as adversaries. Clans form complicated and frequently changing alliances against similarly changing groups of enemy clans.

Complex goals lie behind virtually every tribal war, of course. Most researchers have found the most important cause to be disputes over land, a symbol of political power as well as an economic necessity in these purely agricultural societies. Compensation for misdeeds and past debts ("payback") is also a common motive in keeping with the emphasis Melanesians place on reciprocity of the utmost exactness. Clan pride is an additional factor, and young men have cited the excitement and camaraderie of dangerous group undertakings when resisting the urging of friends to turn to more peaceful pursuits.²

Rules of engagement vary markedly with the nature of the adversary. The complete routing of enemy clans and seizure of all their lands and possessions occur relatively rarely.³ The manner in which war is waged, therefore, usually takes into account the cost of subsequent peacemaking and coexistence. Neighboring clans are likely to have not only the greatest cause for warfare, particularly as regards land disputes, but also the most common interests. As Highlanders frequently point out, today's enemy may be tomorrow's ally and source of wives. Highlands tradition until recently prohibited the use of modern arms in today's tribal wars, thus limiting mortalities and injuries to those inflicted by arrows, spears and axes.⁴ Enemy clan leaders or "big-men" are usually spared unless they take an active warrior role since their services may later be required for peacemaking. Outsiders and particularly foreigners are almost always given safe passage through battlefields. Conflicts between entire tribes are in some areas in the form of tourneys, where hundreds of warriors display their weapons, war paint and finery but only a selected few engage in actual combat.⁵ In short, tribal warfare, although often quite brutal, em-

bodies varying measures of ritual and, thus, cooperation between the antagonists.

Traditional tribal warfare can be seen as a centuries-old system for distributing the population in accordance with the numerical and physical strength of clans and the capabilities of the land to nourish humans and their pigs with sweet potatoes and other vegetables.⁶ Although the best land often went to the clans with the strongest and cleverest warriors, other features of the society made the system relatively equitable. The small size of social units and intense competition prevented clans and individuals from exercising control over each other. Large accumulations of land were rare since land ownership was invested in clans rather than individuals and the production unit always remained the family. Families rarely occupied more land than they could cultivate and the level of technology greatly restricted the amount of land a wife could tend (men, of course, being occupied with warfare). Big-men could expand their holdings somewhat by marrying five or more wives and enlisting young bachelors on a temporary basis, but their superiority in wealth and status was not great and always made tenuous by competition.

The egalitarian nature of Melanesian society before contact with Western influences is often idealized today, and the prevalence of tribal warfare is sometimes overlooked. In fact, some aspects of this traditional system—the emphasis on individual competitiveness, social position depending on achievement rather than birth, the tendency to allocate land on the basis of usage, and an insistence on strict reciprocity—helped prepare Melanesians for a market system. Warfare, however, made it one of man's most economically costly systems. Hostilities prevented the accumulation of human and physical capital and blocked the insights gained from interaction with a broader environment. Dangers from clan enmities in fact condemned Melanesians through thousands of generations to spend their entire lives in areas sometimes no larger than a modern prison farm, laboring with stone tools to produce highly perishable foodstuffs.⁷

Most Melanesians, when brought into contact with Western societies, recognized the costs of tribal warfare and needed little encouragement to grasp the opportunities for peace offered by central colonial authority. By the time the Melanesian nations moved toward local autonomy in the late 1960s, tribal warfare was

a hazy chapter of history for virtually all areas except the New Guinea Highlands. The Highlands, which had come under effective colonial control only a decade before, seemed by the late 1950s to have been effectively "pacified" as well. Roughly coincident with the transfer of power, however, the western part of the Highlands witnessed a marked increase in tribal warfare, which has continued to erupt from time to time to this day.

The resumption of tribal warfare in some areas of the New Guinea Highlands was due in great part to the increasing scarcity of land as the result of population growth and the introduction of cash cropping. It also reflected, however, the inability of Western institutions to contain an intensely competitive spirit. Virtually all Highlanders initially welcomed the Australian solution of placing their disputes over land and other matters before a judge, which they called "fighting in the courts." Some, however, changed their mind when they found that court rulings had a decidedly permanent nature. While Australians understandably believed that permanent delimitation of land boundaries would eliminate a prime cause of warfare, some Highlanders apparently saw it as a unilateral freezing of status which limited everyone's future potential. Not only did the losers in court cases demand further opportunity to pursue their claim, but the winners wished to retain the option of gaining still more. Since "fighting in the courts" could not be continued, some Highlanders resumed traditional means of competing for land. In a trade-off between security and potential for gain, they chose the risk-taking course. While rejection of central authority is usually limited to cases of clan disputes, continued tribal warfare has, of course, raised the cost of law enforcement and lowered the overall economic efficiency of the country.

Competitive Peacemakers

The Melanesian manner of resolving most wars, litigations, and disputes is payment of compensation. Determining the amount of compensation due under the Melanesian rule of exact reciprocity is itself a highly competitive process involving both individual and group pride. Moreover, the outcome is often considered by at least one of the parties as interim in nature and subject to change in the future. The system can, however, prove expeditious and effective even in a modern context. A Melanesian business representative who saw his car put to the torch on



Papua New Guinea Highlanders at Exchange Ceremony

inadvertently entering a tribal war zone, for example, rejected the advice of his Western employer to see his insurer and lawyer. Instead, he sought out the leaders of his attackers to point out the shame which would descend on their clan if this act were not righted. He emerged with a sum substantially exceeding the price of a new car and no lawyer bills to pay.

Compensation—not just for past injuries but, more frequently and more importantly, for previous or future favors—is the bond that holds Melanesian societies together. The rituals of most tribes for most occasions include exchanges of goods. These exchange ceremonies frequently mirror tribal warfare in both the finery of paint and feathers and the intense competitive spirit of the participants. A principal objective is often to demonstrate clan superiority and to “shame” exchange partners with gifts superior to those they can offer. In the New Guinea Highlands, therefore, these ceremonies have on occasion stimulated the warfare they were meant to replace. More often, however, they establish friendly, if highly competitive, bonds. Together, warfare and exchange ceremonies form a continuum within which the distinction between competition and cooperation—and even the boundary between war and peace—are not always obvious.

Traditionally, clan leadership and the title of big-man are won principally through the exchange process. Those successful in accumulating wealth, often in the form of pigs, sweet potatoes, and other perishable goods but also in storable seashells, “invest in obligations” by sharing it with others. The extent of these obligations is the measure of leadership. In exercising this leadership a big-man is expected to arrange and manage exchange ceremonies in a manner advancing his clan’s reputation. Providing a good portion of the exchange goods himself, he cajoles and negotiates contributions from clansmen which will advance the clan’s as well as the individual donor’s prestige. Although a big-man’s reputation and accumulated obligations can help a son follow in his wake, leadership status must be won by each incumbent and constantly defended against heated competition. The turnover in big-men is therefore quite large, and few retain the position into old age.⁸

Illustrating the tenuous position of big-men are stories circulating throughout Melanesia of a young colonial officer’s first encounter with a village leader. The big-man declines the young foreigner’s request that he order his clansmen to undertake a com-

munity project by pointing out that, if he asked his people to do something they did not want to do, he would no longer be their leader. The story exists in so many versions and regions as to appear apocryphal. It is equally likely, however, that this clash of cultures occurred on many occasions. Early accounts by missionaries and colonial administrators of their experiences in Melanesia have as a common theme their frustrations in finding a leader with sufficient authority to serve as a single point of contact.⁹

Western scholars, many of whom are accustomed to associate traditional societies with communal values, have been intrigued with the intense individualism of the Melanesians. A nineteenth century observer's description of the Tolai people of New Britain island, who are now among the best educated and most economically advanced groups of Papua New Guineans, is worth noting because of the light it throws on Western as well as Melanesian attitudes:

The Tolai felt uncomfortable as a permanent dependent part of a group and was clearly not made to become the loyal anonymous citizen of an all-powerful state. He wanted to manipulate personal relationships and accumulate personal power. He knew that he was being manipulated in the same way, but he neither wanted to administer nor to be administered, even if the object of administration was justice.¹⁰

More recently, an American anthropologist reacted similarly to the individualism of a New Guinea Highlands people:

Chimbu society was in constant flux, with individuals engaged in transaction, big men in competition, groups in rivalry for renown as producers of food and pigs and in fights over property and prestige. No rank system or form of accumulation, succession or centralization developed to overcome individual and small group competition. . . . There was no moral or religious ideology or sanction for rank, dominance, or accession to power and wealth.¹¹

Individualism, which is traditionally cited as a key element in the modernization of the West, was so strong in Melanesia as to be compared by Westerners to chaotic anomie.

Pragmatic Magic-Makers

The individualism and egalitarian competitiveness of the Melanesian people are, of course, linked to traditional concepts of power. Anthropologists tell us that Melanesian societies before contact with Western ways—and sometimes well after—did not differentiate between the worlds of men and spirits. Superiority in warfare and in the production of sweet potatoes and pigs was attributed to superior management of a clan's spiritual as well as human resources. The former consisted principally of ancestral ghosts and spirits residing in physical features of the region. As one scholar put it, the focus of power for Melanesians was not in the supernatural but in man's interaction with his natural and supernatural environment. Religion was thus a "technology for. . . achieving patently secular, socioeconomic needs."¹²

Considerable time was spent on observing tabus and learning magic formulas. When Melanesians were first confronted with the clearly superior resources of industrialized nations, these practices sometimes led to the "cargo cult" reactions in coastal Melanesia. Western observers were fascinated by these cultists' somewhat frantic efforts to replicate Western magic, including in some instances the erection of crude bamboo replicas of airplanes, ships, docks, and warehouses to attract "cargo." It was in the context of local beliefs, however, a natural reaction to the trauma of discovering an exponentially superior competitor.¹³

The curious and sometimes comic cargo cult activity led many Westerners to overlook the positive aspects of the Melanesian philosophical heritage. Most important of these is the concept—far from common in traditional societies—that power is equally accessible to all individuals who learn the correct formulas. This belief placed no stigma on foreign borrowing; indeed, it often encouraged the absorption of alien imports into Melanesian society. The difficulties came in distinguishing between helpful, superficial, and harmful aspects of Western civilization and in accepting the great time and effort required to learn its magic. The rapid spread of Christianity throughout the islands and the belated beginning of the formal education process in missionary schools offered solutions for these problems.

The Christian religion plays today an unusually important role in the lives of almost all Melanesians. Its principles are

therefore invariably imposed on traditional criteria for social conduct and leadership. Pre-Christian traditions in harmony with Christian teachings, such as those promoting egalitarianism, have been reinforced. Those sanctioning violence have, of course, been greatly weakened. Christian scriptures have sometimes been used to reinforce the Melanesian custom of distributing rather than investing earnings. According to a Solomon Islands leader, Christian crusades led by visiting foreign preachers sometimes brought a halt to all profit-making activities in certain parishes of that country.¹⁴ Recently, however, the relationship between church and commerce throughout Melanesia seems to be following the Western mold. Since tribal custom is highly parochial in nature and Christianity is a national and even pan-Melanesian tie, the latter is usually given precedence by leaders of national stature.

The immense gap between Melanesian superstitions and Western science, between Melanesian clans and Western nations, and between Melanesian exchange ceremonies and Western markets undoubtedly contributed to the colonial powers' inordinate delay in preparing their Melanesian wards for self-rule. Even the most sympathetic German, British, French and Australian administrators could scarcely envision these traditions serving as foundations for viable states in the modern age. The short history of the young Melanesian countries, however, indicates that it was Western vision, not Melanesian tradition, which was lacking.

Few nations have so harmoniously adapted foreign institutions to their own traditions. All three Melanesian states, for example, have successfully adapted the Westminster system of government to their societies' particular blends of competition and cooperation. In Papua New Guinea and Solomon Islands intense competition has brought several transfers of power through both general elections and parliamentary votes of no-confidence. All were accomplished smoothly without even a minor hiatus in power or a single disaffection from the system. In this respect, the new Melanesian parliaments might be considered more effective than many of their centuries-old counterparts on the European continent.

The near magical match between one of the world's more sophisticated governmental systems and three of its youngest political entities can be traced to strengths in Melanesian tradition.

Prime among these are a custom of ceding power readily to those demonstrating greater support, a focus on practical aspects of leadership, and disinterest in ideological matters.

The Melanesian love of a good fight, on the other hand, also brings inefficiencies into the system. Contention for leadership sometimes takes precedence over government programs. Alliances based on temporary expediency rather than common policies have occasionally produced undisciplined cabinet members issuing conflicting directives. Frequently shifting alliances requiring cabinet changes can cause disruptive discontinuities in policies and management. And big-man traditions can at times also lead to an infelicitous mingling of government and business, as will be seen in Chapter 6. Despite these occasional weaknesses, however, all three parliaments have provided unusually effective national leadership, symbols, and legislation for peoples who previously had none. They may, in fact, be among the more productive elected legislatures in the world.

In adapting to a market environment, Melanesians draw from their cultural heritage both significant advantages and serious handicaps. Competitive instincts and determined individualism are, of course, the essence of entrepreneurship, and Melanesians have taken to business with great relish and occasionally remarkable success. On the other hand, profit and investment are alien concepts, the culture creates great pressures for rapid distribution of earnings, and competitive instincts sometimes impede good management. As we shall see in Chapter 8, successful businessmen have received a boost from some traditions but have been forced to break with others. A similar statement might be made in regard to Indonesian traditions and businessmen, but, as the following chapter explains, a vastly different cultural heritage placed Indonesians on a diverging course.

ENDNOTES

1. Many Papua New Guinea lowlanders and inhabitants of other Melanesian islands would probably argue that New Guinea Highlanders have always been more prone to violence. This may be true as population and land pressures

have undoubtedly been greater there for many generations. Nevertheless, early Western accounts of what are now the more advanced regions of Melanesia depict warfare that closely resembles practices recently observed in the New Guinea Highlands. See, for example, A. L. Epstein, *Contention and Dispute*, pp. 80-82, T. Scarlett Epstein, *Capitalism, Primitive and Modern*, p. 55, and Kesing, *Lightning Meets the West Wind*.

2. Based on 1986 conversations with the young Highlands author Michael Mel.

3. Characteristics of Highlands tribal warfare summarized here are based on Meggitt, *Blood Is Their Argument*; Brown, *The Chimbu*; Strathern, "Contemporary Warfare"; Toke, "Tribal Warfare Rules; Port Moresby newspaper accounts of clashes during 1984-87; and conversations with several longtime residents of the Highlands. Meggitt's survey of intergroup warfare among the Mae people of Enga province (numbering approximately 5,000 people) indicates that 57.7 percent of the 84 incidents recorded were fought over land. Of the latter with known results, 17.6 percent resulted in total eviction.

4. This was not the case in Solomon Islands late in the last century, however. The introduction of European firearms there greatly increased tribal warfare and casualties. See Howe, *Where the Waves Fall*, p. 334. Since 1986 there has also been an increasing number of incidents in which modern weapons have been used in New Guinea Highlands tribal conflicts, a worrisome development for peace officers there.

5. There were some indications of increased infractions of these rules in the 1980s. Toke notes that Enga clans now kill enemy big-men in order to "relieve a feeling of animosity toward the enemy" and that prohibitions against killing women and children were increasingly violated in order to inflict hardships on the enemy. The press reported tribal warfare in Western province in 1986 involving 2-3,000 tribesmen. In August 1986, the Peace and Good Order Committee of Western Highlands province attributed this dramatic increase in tribal warfare to alcohol consumption.

6. Many other factors, of course, had a bearing on land distribution in the Highlands and other heavily populated areas of New Guinea. For the views of a group of cultural geographers see Brookfield, ed., *The Pacific in Transition*, pp. 25-75, 127-163.

7. Among the many inefficiencies of the system was the division of labor between the sexes. Except for the clearing of land, agricultural production was left almost entirely to the "weaker sex." Women were also "beasts of burden" since no animal larger than pigs existed in Melanesia and men were required to remain unencumbered in case of attack. A widespread belief that feminine weakness could contaminate masculine strength led to separate living quarters in most Melanesian societies. This superstition persists today in some areas, as missionaries opening a new boarding school learned when their male students became distraught on discovering that their rooms were immediately below those of female students. As we shall see, however, the Melanesian women's harsh lot sometimes makes them the stronger sex in modern economic settings. Their industriousness, stamina, and discipline in some situations more than match

Melanesian males' advantages in competitiveness, ambition, and drive.

8. There are some small tribal groups, as in the Trobriand Islands, where chieftainship is inherited, and there is, of course, great variety in exchange ceremonies and the selection of big-men. This simplified summary draws in particular on Strathern, trans., *Ongka*; Meggitt, *Blood Is Their Argument*; and Rubel, *Your Own Pigs*.

9. See in particular R. J. Lacey, "European Images of Indigenous Leadership in British New Guinea," in Inglis, ed., *History of Melanesia*, p. 575.

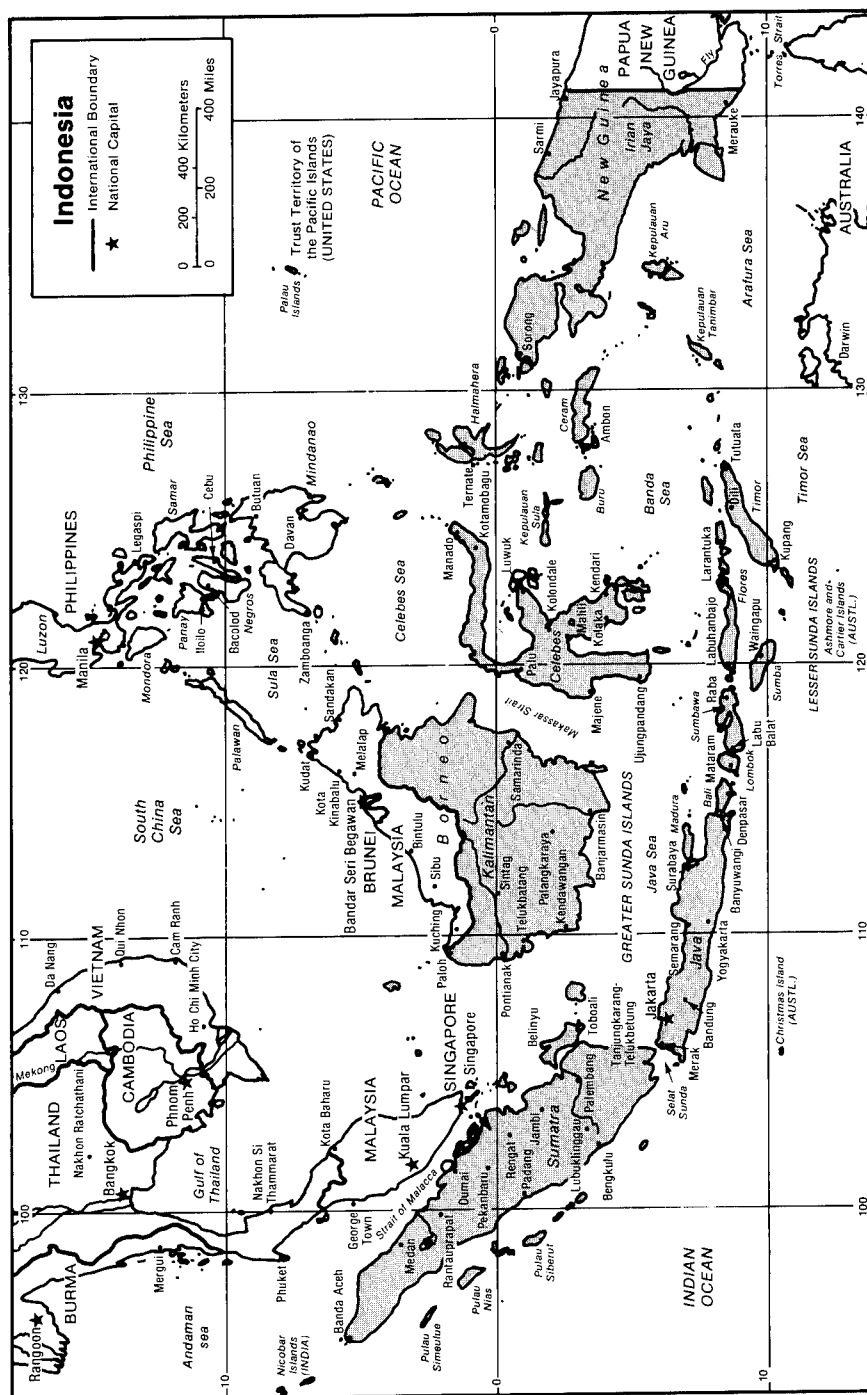
10. Peter G. Sack, "The Range of Traditional Tolai Remedies" in Epstein, ed., *Contention and Dispute*, p. 78.

11. Brown, *The Chimbu*, p. 64.

12. Robert Tomkinson "Vanuatu Values: A Changing Symbiosis" in May and Nelson, eds., *Melanesia Beyond Diversity*, p. 73.

13. Curiously, the New Guinea Highlanders, who were the last Melanesians to encounter Western civilization and thus subjected to the greatest trauma of inferiority, were the least prone to resort to cargo cults. This has been attributed to the greater generosity of twentieth century Westerners and to the pragmatic bent of Highlanders compared to the "mysticism" of coastal Melanesians.

14. John S. Saunana, "The Politics of Subsistence," in Sixth Waigani Seminar, *Priorities in Melanesian Development*, p. 436.



3: SOCIAL HARMONY IN JAVA

As seen in the opening chapter, Indonesians and Melanesians offer an especially revealing test of market sensitivity to cultural diversity. The two peoples make similar demands of the market—both seek economic development and security—but they differ greatly in fundamental attitudes and values. While the Melanesians' traditional values equipped them well for economic competition, the Javanese of Indonesia brought to the market very different values and attributes.

The 1,800 miles from New Guinea to Java was in pre-colonial days clearly a journey to a separate world. In cultural terms, the two worlds could even be likened to matter and antimatter because key traits most attractive to one strongly repelled the other. Attitudes on competition and cooperation fall in this category. To understand the Javanese approach to these relationships, we must first understand their traditional concept of power.

Like many other aspects of the culture, the Javanese concept of power has Hindu roots. The manner in which the Hindu religion and art forms arrived in Indonesia is open to speculation. Some historians have picked subcontinent traders as the source, and others have opted for princely colonizers. Most likely, however, indigenous rulers appropriated beliefs, institutions, and ceremonies of powerful neighboring kingdoms in the hope of attaining similar stature much as early Russian tsars borrowed their religion from Byzantium.¹ In any event, Hindu beliefs and art were closely associated with the strength and splendor of Java's early kingdoms.

Cosmic Order, Just Kings, and Faithful Servants

In keeping with its Hindu origins, Javanese tradition envisages power as a cosmic force. Its concentration on earth brings peace, order, and prosperity. Its absence leaves chaos and catastrophe. Individuals can attain or concentrate this power by achieving a detachment from worldly distractions, complete control over passions and emotions, and acceptance of and perseverance in adversity.

Javanese rulers were believed to have attained their power (*kasekten* or energy) by achieving an extraordinary concentration of these virtues. Power, usually visualized as a bright ray of light which descended upon a ruler and radiated with gradually diminishing strength to the corners of his realm, was maintained by assuring that order on earth mirrored that in the heavens. Peace and prosperity in the realm were evidence of this fact. Calamity, disorder, poverty and discontent were, in turn, signs that a ruler had lost his power. History was seen as a cyclical succession of order and chaos as power was transferred from one ruler to another. Indonesia's premier writer on culture and economic development, Soedjatmoko, has pointed out that, in denying man's ability to dominate nature, Javanese beliefs excluded the Western concept of historical progress.²

Power in Javanese tradition was indivisible and resided by definition in the ruler. The relationship of others to this power was, therefore, identical to their relationship to the ruler. Every individual had a place in a hierarchical structure descending from the king's large family, to nobles of more distant kinship, to court officials, to high and minor officials in the provinces, and finally to artisans, merchants, and peasants. Official position was most often determined by birth. The strong and continual emphasis placed on hierarchical status is clear from the fact that the Javanese language incorporates at least nine different styles of speech used obligatorily to distinguish relative rank.³

With each inherited position went a code of conduct ensuring peace and order in the realm. Javanese versions of Hindu legends, embodied in puppet plays and dances still very popular today, imprinted these codes in the viewers' consciousness. By demonstrating that failure to live up to a code endangered the kingdom as a whole, these legends or *wayangs* stressed the interdependence of all levels of the society. Strictures against losing emotional equilibrium and overtly expressing conflict in social relationships were common to the codes of most classes. Competition could be openly pursued only in battle for a just cause, and profit-seeking was seen as yielding to selfish desires detrimental to the common good. Aristotle's description in *Politics* of the craftsmen's and traders' life as "devoid of nobility and hostile to perfection of character" fits perfectly the views of Javanese classicists. On the other hand, office holders' right to tribute as a benefit of



Rice Paddies near Mount Slamet, Central Java

rank (not for services performed) was accepted as a natural reflection of the cosmic order.

The Javanese social system, unlike that of India, had no castes and permitted some social mobility, particularly between officials and nobility. Aspiration of top officials to kingship constituted, in fact, the principal cause of war. Even the lowest classes are, in the Javanese *wayangs*, imbued with mystical potential. Best loved among the *wayang* characters, for example, are misshapen, comic servants who are at the same time among the most powerful of gods, to whom the highest nobles must at specified points pay homage. These Javanese additions to the original Indian cast are used still today to satirize contemporary institutions and to symbolize the ultimate equality of those with different worldly rank.

Although endowed with absolute power, including ownership of all the realm's land, a king was, in theory at least, also bound to a code of conduct by the mystical nature of that power. A "just king" (*ratu adil*) is in classical Javanese literature given long lists of responsibilities for his people's welfare, including the protection of markets. One old Javanese document, in listing the five principal threats with which a king should be concerned, ranks the extortion of poorly paid officials, the corruption of the court, and the king's own covetousness alongside external enemies and internal lawlessness.⁴ As the literary highlighting of such standards suggests, kings frequently did not meet them. Overt failure to fulfill the royal code of behavior greatly encouraged usurpers, however, since it could be cited as proof that power had been withdrawn from the ruler.

In the view of one prominent Indonesian historian, the ideal role of the rulers of the Javanese rice kingdoms was to protect rather than to develop his realm.⁵ Successful crops were, in fact, believed to depend on a universal balance which could be destroyed by royal interference. In return for protection and use of the king's land, the peasants paid tribute to the king and his office holders, participated in occasional work levies, and provided military manpower when required. They otherwise lived quite separated from the state, handling most common needs such as irrigation through mutual cooperation (*gotong royong*).

The peasantry seem to have had some traits in common with Melanesians. Strict reciprocity in mutual cooperation was re-

quired. In one Dutch observer's view, the painstaking repayment of services received under *gotong royong* made it more expensive than hired help. He also noted that pressures to share personal wealth were so great that individuals wishing to accumulate capital were often forced to move from their original villages.⁶ In other important aspects, such as the suppression of overt competition, however, the Javanese villager contrasted dramatically with his Melanesian counterpart.

Warfare, although obviously affecting the peasantry, was almost always a princely matter, usually waged by or against usurpers. Armies were garrisoned in the capital city, serving solely as expeditionary, not occupation, forces. Leaders could be ruthless to their princely rivals, at times massacring their entire families and retinues. The general population was, however, usually spared and appropriated as subjects by the winning prince since power was measured in followers rather than land. In Bali, where many small traditional kingdoms persisted in their traditional form well into the second half of this century, the followers of several kings or lords were usually geographically interspersed. The emphasis on human resources rather than land boundaries distinguishes the Javanese and Balinese kingdoms not only from Melanesian clans but from Western feudalism, to which they are often erroneously compared. It might be considered a positive heritage for adaptation to a modern market economy.

Despite the highly centralized model of government dictated by the Javanese concept of power, rulers lacked the specialized departments to finance and oversee officialdom. Officials both in the capital and in the provinces consequently enjoyed substantial autonomy from the king, a factor which increased the threat of usurpation. High officials generally had a retinue from their family clan, ethnic group, or area of origin whom they supported and from whom they drew political strength. As Indonesian historians are quick to point out, this system persists in a modern form labeled "Bapakism." Indonesian *bapaks* (fathers) have social rewards and responsibilities very similar to those of Melanesian big-men. Like the latter, they unite political and economic goals. They differ principally in that the resources and prestige used to attract followers usually derive from a *bapak's* position in an official hierarchy. A *bapak's* tenure is accordingly far more secure. On the other hand, growing economic specialization and the New Order's

emphasis on technical expertise rather than political following has somewhat reduced a *bapak's* role.

Although the traditional social system just described is generally associated with Java, where its remnants are most visible today, it existed in many other parts of present-day Indonesia. The great Sumatran trading state of Srivijaya, which was in the late seventh century one of the world's greatest centers of Mahayana Buddhism, may, in fact, have been the source for many practices of the later Javanese rice kingdoms. And there were flourishing Hindu kingdoms in other parts of Sumatra as well as Kalimantan (Borneo), Sulawesi (The Celebes) and Maluku (The Moluccas or Spice Islands). Most other Indonesians therefore share this inheritance, but in a form much more diluted by subsequent cultural influences from abroad.

Overlays from Other Worlds

The greatest of these subsequent influences was, of course, Islam, which entered Indonesia from the subcontinent beginning in the late thirteenth century. Islam brought a new concept of power according individuals greater control over their fate. It also brought a greater tolerance of profit making and trade. Islam arrived, in fact, with traders from the Indian subcontinent and made its first converts at the principal trading ports. In the fifteenth century, port cities on the north coast of Java succeeded in gaining their independence as Islamic sultanates and early in the sixteenth century joined in defeating the great Hindu rice kingdom of Majapahit. The interior kingdoms subsequently accepted Islam, but without substantially altering the social structure, values, and many of the philosophical concepts of the Hindu era. For these rulers, acceptance of Islam was primarily a political act symbolizing their alignment with a changed external power environment.

Christianity, arriving with the Portuguese and Dutch in the sixteenth century, made its greatest impact in those distant islands and highland regions not touched by earlier religions. It also managed, however, to penetrate the Javanese heartland, today the home of Indonesia's only Roman Catholic cardinal.

The result of successive religious influences on the generally syncretic population resembles colored overlays on the Indonesian map, each creating new shades where it overlaps another. While

Indonesians are unusually tolerant, religions in various shades have created new divisions and reinforced, in many instances, those previously formed by ethnic and linguistic differences.

Today, only Bali and Lombok retain the Hindu religion. The concept of cosmic order seldom if ever enters the consciousness of other Indonesians. Behavior patterns derived from this concept remain deeply ingrained in most Javanese, however, and in many other Indonesians throughout the archipelago. Most continue to place great value in particular on social "harmony" (*rukun*) and the avoidance of interpersonal conflict. Children are from the youngest age still inculcated with self-control and respect for authority as well as the proper posture, gestures, and language to demonstrate these traits and ensure social harmony. Some Javanese social scientists have pointed to this early emphasis on discipline within the official or *priyayi* class as the cause of inertia within the modern Indonesian bureaucracy when uninstructed by higher authority.⁷

Dutch colonialism at first had little impact on the Indonesian, and particularly the Javanese, social structure and attitudes. The Dutch rulers, who initially left the Javanese rice kingdoms intact as vassal states, resembled in some respects earlier Javanese usurpers. Legends were even invented by Javanese philosophers to account for their accession to power, as was traditionally the case with usurpers. The Dutch eventually excluded the Javanese from political and economic power.

The harsh racism of Dutch rule combined in later years with greater Indonesian access to a Western education led, however, to a nationalist movement which changed in important ways Indonesians' views of themselves and their environment. Educational reform movements such as the Budi Utomo, formed in 1909, and Muhammadiyah, its Islamic counterpart founded in 1912, were the first agents of this change, demonstrating the role of education in breaking down traditional social barriers. Budi Utomo was the first organization to propose a national language based on Malay to broach both ethnic and class barriers. Like Pidgin in Melanesia, Indonesian was originally created in the marketplaces frequented by mixed linguistic groups. Formally proclaimed the national language in 1928, it favored no ethnic groups and omitted the elaborate class distinctions mandatory in Javanese, Sundanese, and other traditional languages. During the 1942-45 Japanese

occupation of the islands and the succeeding revolution against the Dutch, social hierarchies for those involved in the independence movement faded into the background, and egalitarian principles were formally endorsed by the new national leadership. The revolutionary army became an effective vehicle for social mobility, as is its successor today.

Democracy and Disorder

The Indonesians, like the Melanesians, chose the parliamentary system of their former colonial administrators as their first form of government—but with disastrously different results. Like their Dutch counterparts, political parties quickly came to reflect existing geographical, ethnic, and religious cleavages, and some adopted further divisive ideologies from abroad. There were individual political parties for example, for traditionalist Javanese Moslems, “modernist” Moslems of West Java and the outer islands, Catholics, and Protestants, while the Nationalist and Communist Parties drew their followers principally from those of traditionalist, Hindu, or secularist bent (in Java sometimes called *abangan* or adherents to Java religion, *agami Jawa*).

As shifting coalitions led to a rapid succession of governments, the possibility of specific ethnic/religious groups gaining exclusive power through extra-parliamentary means became an increasingly ominous specter. A history of communist and local Moslem uprisings fueled suspicions. The army came to reflect party divisions, and some outer-island Moslem and Christian commanders threatened secession.

President Sukarno, whose oratory and charisma had played a key role in building a cohesive nationalist movement, started on a course which was to have quite different results. Clearly dissatisfied with the minimal power the parliamentary system bestowed on his office, Sukarno openly began a campaign to replace the party-dominated parliamentary system with his concept of a “Guided Democracy.” His moves, which included an effort to bring his strongest parliamentary supporter, the Communist Party, into the government, precipitated the long threatened revolt by Moslem and Christian elements in Sumatra, Sulawesi, and Maluku. The suppression of this revolt in 1958 ushered in Sukarno’s Guided Democracy.

The broad support Sukarno initially attracted for Guided Democracy derived not only from his great personal charisma and his record as the nationalist movement's premier leader but also from broad popular disillusionment with the system Indonesians now call "Liberal Democracy." The latter clearly did not accord with traditional concepts of social harmony. Sukarno's argument that it likewise was not attuned to the contemporary "course of history" (which he seemed to identify with the "cosmos" of Javanese tradition) was also persuasive in light of trends in the developing world at that time. Finally, the association of Liberal Democracy governments with Western methods and governments had not produced the economic development promised.⁸

Guided Democracy was to do much worse on all counts. Sukarno threw all of his government's energy into "nation building," which rapidly became little more than the inculcation of radical revolutionary ideology. Parallels between the Indonesian colonial experience and Lenin's teachings on imperialism were a helpful aid. Interestingly, Sukarno also manipulated popular attachment to traditional concepts of power and leadership to sell essentially a communist message.⁹ He not only removed his country from the United Nations and aligned it with Asian communist regimes, but embarked on a military "Confrontation" with Malaysia and Singapore. Concurrently, he encouraged radical forces to turn against "enemies of the Revolution" at home. Foreign enterprises and domestic land holdings were seized by communist agitators, and communist terrorists began in 1965 to assassinate Moslem landowners, teachers, and leaders in East Java.

Using the classic "salami slice" technique associated with the communist "national front" strategy, Sukarno gradually removed virtually all but radical leftists from positions of influence in the civilian government. Failure of these tactics to accomplish the same objectives with the military leadership led the Indonesian Communist Party, in conjunction with sympathizers in the air force and navy, to murder six Army generals in the early morning hours of 1 October 1965 and to proclaim a Revolutionary Council. The army, under Major General Suharto, responded rapidly and effectively, however, to crush this power play. Moslem and other conservative elements in the provinces then turned on their bitter antagonists, massacring tens of thousands of communists and

their sympathizers. Sukarno's complicity in the communist power play became obvious in succeeding months, leading, in March 1967, to his deposition and the advent of a "New Order" under President Suharto.¹⁰

Sukarno's attempt to use traditional beliefs as a boost toward a regime modeled on those of the socialist camp of that time is not altogether contradictory. Both systems shared a deterministic view of history and both provided their leaders the powers Sukarno sought.¹¹ The stumbling block was communism's emphasis on social contradictions, which was completely inconsonant with the Javanese view of the natural order. The 1965-66 massacre of communists was the worst — but far from the first — instance of extreme mob violence when Indonesian rules of tolerance, restraint, and avoidance of overt expressions of conflict are breached. The fact that "amuck" is among the very few English words borrowed from Indonesia attests to the historical prominence of this phenomenon. By openly preaching hate and thus bringing survival instincts into play, the communists and, less directly, Sukarno, must take a major part of the blame for unleashing this violence.

The New Order, in returning to Indonesia's first constitution, sought a system which would avoid the "excesses" of both Liberal and Guided Democracy. The result is an indirectly elected president with strong executive powers and an elected parliament with powers exceeding those of Sukarno's appointed body but far less than those of the first parliament. Political parties have been limited by law to three, the government-supported Joint Secretariat of Functional Groups, which is attempting to follow the army's lead in spanning all ethnic and religious groups, the Development Union Party, which groups forces formerly represented by the Moslem parties, and the Democratic Party, which appeals to those formerly associated with the Nationalist, Protestant, and Catholic parties.

The role Indonesia's cultural heritage should play in contemporary political and economic affairs has long been the subject of intense political debate. Those wishing to weaken traditions emphasizing consensus and the avoidance of openly expressed conflict argue that these have long been used by leaders such as Sukarno to avoid competition and accountability, which are greatly in the public interest. Those opposing this viewpoint cite the costly dissension and violence following unbridled competition in the

later years of both the Liberal and Guided Democracy periods. The two arguments may carry equal measures of truth.

Indonesia's traditions regarding competition and cooperation probably evolved over centuries to meet important social needs. They helped ethnic groupings with different customs and languages and perhaps even ancient enmities to live and work together in the densities permitted by rice cultivation and required by great kingdoms. The density of Java's population today is among the world's highest, and its principal cities continue to house large numbers of Bataks from Sumatra, Bugis from Sulawesi, Ambonese from Maluku, Chinese merchants, and other groups with their own languages, customs, and propensity to draw together when threatened. Tinkering with social norms created over centuries can, in these circumstances, prove foolhardy. At the same time, the ruling circles of both ancient and modern societies throughout the world have often used tradition to perpetuate systems restricting competition for economic and political power and thus fostering inefficiencies for nations competing in the world market. In short, Indonesia has faced very difficult choices in defining an optimum mix of continuity and change, and in fashioning institutions capable of promoting it.

Western media have often been critical of the New Order's democratic institutions. The strict criteria for parties and candidates have, in their view, limited the freedom of New Order elections (although most Western observers noted improvements in the last, April 1987 poll). The failure of the New Order parliament to initiate legislation and its reluctance to resort to majority votes have also been faulted. Some of these criticisms are valid. On the other hand, many, by failing to take into consideration the cultural and historical context, have confused form with content and given inadequate attention to long-term trends.

New Order elections have, on the whole, served to make the government more responsive to the desires and needs of a majority of its constituents. The Indonesian party list system, like that in a majority of the Western European democracies, makes for weaker bonds between the elected and the electors than in the United States. And the Indonesian government's role in setting the rules for candidature makes for weaker party control over members of parliament than is found in most European parliaments. On the other hand, the Indonesian emphasis on consensus causes the

government to be more sensitive to negative votes than most Western states. If the value of elections is measured in the programs they prompt a government to undertake in order to demonstrate its interest in the people's welfare, the Indonesian elections would probably rank above average in worldwide ratings. The five-year election cycle has led to correspondingly paced reevaluation and reinvigoration of development programs, as will be seen in Chapter 5.

Although the Indonesian parliament, formally called the People's Representative Assembly, is far from a powerful body, its accomplishments are greater than those usually visible to the Western eye. The tradition of "consultation and consensus" (*musjawarah dan mufakat*) often leads the government to work out its legislative initiatives with the key committees of parliament before they are presented. Individual initiatives by members of parliament are likewise taken informally to the government to be embodied, when acceptable, in its bills. The government's interest in avoiding public confrontation with parliament can strengthen the latter's role in the preparation of legislation. Similarly, the emphasis on consensus gives the parliamentary minority added leverage. The New Order parliament's first reluctant use of majority vote, which came quite late in its history, was in fact a last resort to overcome stubborn minority opposition to a measure of prime concern to the government.

Reflecting its cultural heritage, Indonesia's governmental institutions provide far greater central authority than is found in the Melanesian states and less room for open dissent than Western democracies generally consider desirable. Even leaving cultural factors aside, however, one can argue convincingly that only a strong executive could have led Indonesia from the brink of economic disaster in 1966 into two decades of remarkable growth. And progress toward greater popular participation in government, while uneven and at times disappointingly slow for some, is nevertheless striking when measured against the past.

The strengths and weaknesses Indonesian traditions bring to the world market are virtually the reverse of Melanesia's. Policies can be implemented without the need to build a solid political constituency, permitting rapid reactions to economic opportunities and, as has proved necessary at happily wide intervals, the timely imposition of unpleasant remedies. Prompt feedback on errant

policies and practices can, on the other hand, be lacking. While appointments to ministerial positions can be made more frequently on the basis of technical expertise rather than political following, there is also less oversight and exposure of misuse of office. Greater Indonesian continuity in key personnel and, to a lesser degree, in policy is evident when ministerial changes are compared with those in Melanesia. From its independence in 1975 to 1988, for example, Papua New Guinea had nine Finance Ministers, nine Minerals and Energy Ministers, and twelve Foreign Affairs Ministers, while Indonesia in the same period had only two Finance Ministers and three Minerals and Energy and Foreign Ministers. Infrequent turnovers in key personnel tend to enhance the New Order's predictability and thus investors' confidence. On the other hand, Indonesia's few transitions of power create some uncertainty regarding the survival of basic institutions beyond the current leadership.

Some Western economic theorists have given traditional heritages such as Indonesia's very low marks in developmental potential. More specifically, the Javanese have been said to be inward rather than outward looking. This would not, of course, be unexpected for a people with a rich and aesthetically admired culture which had been excluded from political and economic power during 300 years of Western colonialism. One prominent Javanese social scientist, Koentjaraningrat, when speaking of his own *priyayi* class also postulated that "whenever a culture or sub-culture . . . has an established ancient tradition and therefore a vested interest in protecting the great tradition, it will show greater resistance towards change than cultures or subcultures with few such traditions."¹⁰

The Javanese culture's emphasis on adapting to rather than changing man's environment is widely believed to inhibit initiative and achievement-orientation. And the tendency to suppress conflict suggests that problems will be evaded rather than solved. These and other characteristics led one scholar with extensive knowledge of Indonesia and of the New Order's initial economic program to argue at length in a 1974 book that Indonesians would be required to choose between their cultural "mysticism" and economic modernization. He cited in particular the fatalistic, passive attitudes it fostered in the peasantry, whose participation was essential for Indonesia's development.¹¹

Indonesia's economic progress since 1974, as outlined in Chapter 5, serves as the most effective rebuttal of this and similar theses. As we shall see in later chapters, Indonesia's cultural heritage, like that of Japan and, indeed, most Western countries, contains some aspects unsuited to a modern market environment and others providing advantages. Among this latter is the emphasis on self-control, on striving for individual perfection, and on group discipline. Many prominent Western economists today would also applaud the Javanese un-Keynesian emphasis on understanding and adjusting to one's environment rather than attempting to change it. Even the traditional Javanese concept of power need not deter development if the locus of power is shifted from the cosmos to the earthly economic environment—if wise leadership and prosperity come to be associated with an understanding of and correct alignment with market forces, for example.

In any event, the most traditionalist among the Javanese have shown considerable discrimination in applying old rules to new situations. Today's educated youth demonstrate a remarkable ability to shift from traditional to modern modes of thought depending on the context and interlocutor. This facility has aided the shaping of ancient practice to modern knowledge. In the case of trade practices, every facility was needed. Well into the present century, both Indonesian and Melanesian trade traditions virtually excluded them from market competition. This is the subject of the following chapter.

ENDNOTES

1. Koentjaraningrat, *Javanese Culture*, p. 15, p. 20.
2. *Ramayana-Kakawin*, verses, p. 78 and p. 79, as interpreted by Wirjosuparto, *Astabrata*, pp. 22-23. Wirjosuparto and his associates in publishing this work were pointing in an indirect Javanese manner to violations of the code of conduct by Sukarno, Indonesia's President at that time.
3. Moertono, *State and Statecraft*.
4. Boeke, *Economics of Dual Societies*, pp. 33-34.
5. Koentjaraningrat, *Javanese Culture*, p. 459.
6. Feith, *The Decline of Constitutional Democracy*, pp. 506-608. Feith in his extensive study of Indonesia's experiment with parliamentary democracy reaches conclusions similar to those expressed here.

7. Benedict R. O'G. Anderson, "The Idea of Javanese Culture" in Holt, ed., *Culture and Politics in Indonesia*. Anderson outlines some of the devices Sukarno used.
8. This account of the 30 September 1965 events and their aftermath is based on the author's personal observations as an American Embassy political officer in Jakarta at that time. Since the murder of the generals was a secret, highly conspiratorial operation for which cover stories had been invented, other theories regarding the extent to which the Indonesian Communist Party and Sukarno were involved have arisen. For a balanced account of conflicting theories see Crouch, *Army and Politics in Indonesia*, pp. 101-134.
9. Robert J. Martens, who served in the American Embassy during the final years of Guided Democracy, has in an as yet unpublished manuscript assembled substantial circumstantial evidence to support his thesis that Sukarno was in fact a secret member of the communist party.
10. Koentjaraningrat, *Javanese Culture*, p. 462.
11. Sievers, *The Mystical World*.

4. TRADITIONS IN TRADE

Long before sustained contact with the West, Indonesians and Melanesians had each developed extensive trade networks. Indonesian products were well known in Peking, Arabia, and Rome, for example, before Europeans thought of entering the spice trade. Three thousand years ago, Melanesians were carrying obsidian and Lapita pottery across 2,000 miles of open seas, matching contemporaneous feats of the Phoenicians on the other side of the globe.

With a few exceptions, however, trade did not bring the cultures of the two regions into sufficiently close contact with the external environment to bring about significant internal changes. Melanesian traders seldom ventured beyond neighboring Polynesia. Indonesia's great kingdoms drew on external sources for much of their initial growth, but, once in place, showed considerable resistance to foreign trade's inducements for change. Islam, which arrived in Indonesia on trading vessels, was, of course, the principal exception since it did, over time, stimulate important cultural adaptation, particularly among the outer-islanders. In inland Java, however, traditional culture seems to have changed less than Islam did itself when it took up local residency.

Traditional Melanesian and Indonesian goals in pursuing trade may account for its limited role as an "agent of change." These goals would in today's lexicon be classified as political rather than economic since they focussed less on the exchange of goods *per se* than on reinforcing social bonds. This was particularly true in Melanesia, where there was no clear distinction between trade and ceremonial exchange.

"Futures" Trading in Melanesia

The people of the New Guinea Highlands were until the 1930s undoubtedly the most isolated population of its size on earth and therefore the least affected by trade. Nevertheless, shells from seas no Highlander dreamed existed served until recently as their most

valued medium of exchange. Archeological finds date the use of cowries in the Highlands from at least 9,000 years ago. Pigs, introduced to the Highlands 10,000 years ago, and sweet potatoes, first cultivated during the present millennium, mark turning points in Highlands pre-history and were undoubtedly involved in trade. The manner in which trade was conducted, however, seems not to have varied significantly in the 10,000 years preceding the arrival of Australians.

Before contact with the West there were no specialized tradesmen of any sort in the Highlands. Individuals made their own exchanges in or apart from ceremonial occasions. While trade items circulated over distances of a few hundred miles, the autonomous links in this "system" were probably no greater than ten miles since travel was severely restricted by tribal hostilities.¹ In a 1967-8 survey of Highlanders with good memories of the pre-1930, truly stone-age trade, all informants said they had been unaware of the origin of items not produced by neighboring clans. They had known only the direction from which the items came.²

In contrast, the coastal regions of Melanesia had tightly knit exchange systems stretching over thousands of miles and involving substantial specialization. They were made possible by water transport which allowed clans to bypass neighboring enemies to find allies (or weaker prey) on more distant shores. As in the Highlands, these exchange systems centered on competitive gift-giving, and some if not all seem to have originated as peaceful substitutes for head-hunting expeditions. They were seen as a means of expressing clan pride and developing inter-clan alliances. At the same time, however, they served economic purposes by linking areas with different terrain, raw materials, and agricultural produce.

Two extensive trade systems operated for many years in the New Guinea region, the Hiri among the eastern islands, and the Kulu linking the Motu peoples of eastern New Guinea with Papuan Gulf tribes. Small exchange centers developed within these systems as did villages specializing in such products as pottery and shell jewelry. Trade was between people rather than places, however. And the primary goal of these exchanges was the accumulation not of profits but of personal bonds and obligations conveying social prestige and status. Former Papua New Guinea Foreign Minister Sir Maori Kiki has in an account of his boyhood

days described the arrival of Motu vessels carrying pottery to exchange for sago in his native Papuan Gulf village.

The Motu people did not carry their pots to the market, but each went straight to the house of his 'trade relation,' with whom his family had been dealing for years and perhaps generations. Heni, the leader of the expedition, went to my father's house. He would hand over all his pots at once to my father, and it was considered bad manners to count them or ask their price . . . But in fact my father was counting the pots carefully . . . In this way my father assessed the amount of sago he had to give in return, and once again the sago was presented to the trade relation without counting . . . The friendship between my father and Heni was cemented when my father called his first son Heni and his friend called his first son Kiki. In fact Motu trade relations were almost considered members of one's own clan. If one of them were to die in Orokolo, we would bury him with full rites, like one of our own people.³

Early Western observers of these egalitarian exchange systems believed they were witnessing communism in its native state. It remained for more perceptive visitors, such as the pioneering anthropologist Malinowski, to point out the intense competition fueling the systems. Melanesian coastal trading was, in a sense, only a step away from capitalism. It was a giant step, though, since non-transferable "futures" bound to personal relationships had far less utility than cash profits.

One study has shown that the Tolai people on the Gazelle Peninsula of West New Britain Island, generally considered the most economically advanced of Papua New Guineans, had before contact with Westerners essentially "monetized" their economy with sea shells. Shells were in some circumstances exchanged for goods, banked at interest with leaders, and even embezzled by the latter. A big-man, however, had no way of converting the large bulk of his accumulated shell wealth into other durable assets. "All he could do was to translate his economic achievements into prestige and political influence . . ."⁴

During the precolonial period, small "markets" existed on the Gazelle Peninsula at the midpoint between friendly coastal and hill clans, where women traded coastal and inland products. Prices were, however, fixed—each product was bundled according to

standard equivalences and bartered or exchanged for set amounts of shells. The women were not permitted to compete in pricing but could do so in displaying their abilities as producers of quantity or quality.⁵

The colonial administrations in Melanesia, all of which appeared at times to have a higher regard for profits than people, drastically altered the environment for exchange ceremonies. Most of the coastal trading systems disappeared.⁶ One of the more prominent systems, however, the Kula of southeastern Papua New Guinea, survived and was even revitalized. While the economic value of the system diminished markedly with the introduction of Western products and transport, its social functions were enhanced when the suppression of tribal warfare diverted competitive energies into the Kula ritual.⁷

In the New Guinea Highlands, massive use of shells by Australian prospectors and traders to obtain labor and facilities debased the local currency and broke the power of big-men. When Highlanders were introduced to coffee growing, however, they poured their cash earnings into traditional exchange channels. The big-man structure was consequently resurrected as several items of Western origin, including beer and even motor vehicles, joined the traditional pigs and shells in the exchange cycle.

Until the last few years of colonial rule Melanesian participation in the economic system of their colonial masters was largely limited to manual labor. For over 100,000 Melanesians, or roughly ten percent of the known male population at that time, the experience literally changed their way of life because they were taken to work on Australian and Fijian cotton and sugar plantations. This labor trade, or "blackbirding" as it came to be called, is generally regarded as one of the more sordid episodes in the history of Western colonialism. Many of the Melanesian youth were forcibly indentured and incidents of great inhumanity were widely documented in the press at the time. These press reports eventually brought an end to the fifty-year-old practice in the first decade of the current century. Modern historians point out, however, that the great majority of workers were willing—even enthusiastic—volunteers since work in Queensland was the greatest source of wealth available to young men in their societies.⁸ Tradition required that most of the proceeds brought home be placed in the exchange system, but the return in prestige and personal

obligations for many Melanesian youth more than justified a hard year's work.

The effects of the labor trade on Melanesian society were not adequately measured at the time, and can only be estimated today. The long-term impact was probably substantial in present day Solomon Islands and Vanuatu, where the bulk of the laborers was obtained. Christianization and the development of the pidgin language, both of which were to become important unifying factors throughout Melanesia, were certainly advanced. Overseas experience seems to have assisted adaptation to a cash economy and in a few instances stimulated experiments with cash cropping. On the other hand, most workers apparently readjusted quietly to their traditional ways, their earnings serving to strengthen traditional concepts regarding the creation and distribution of wealth.

The establishment of Western plantations in the Melanesian islands offered continued opportunities for work and, to a much lesser degree, cash cropping. None of the four colonial powers made a significant effort to introduce Melanesians to modern commerce, however, until independence was clearly in sight. In some instances, assistance was withheld out of greed as in the case of a 1930s agreement by Western traders on the Gazelle Peninsula not to buy dried copra to discourage Melanesians from obtaining driers.⁹ In other cases, however, the cause was benignly intended neglect, reflecting unwillingness to meddle with highly egalitarian and perhaps fragile societies. The Australian government's delay in providing full secondary education in Papua New Guinea until the 1960s, for example, was in part out of fear of creating a new elite in a society which had known none before. A more important factor, however, seems to have been colonial authorities' belief that the distance between the Melanesian way of life and Western ways was so great that it could only be bridged if at all by a gradualist approach.

Whatever the motive, statistics reveal an appalling lack of progress in preparing Melanesians for the modern world environment. In 1953, for example, only 3.8 percent of an estimated 1.5 million Papua New Guineans were in wage employment, of which less than 15,000 were in skilled and semi-skilled occupations. In the same year, the total enrollment in state schools was less than 5,000, in English-speaking mission schools 21,000, and in tribal language mission schools 125,000.¹⁰

Cognizant of their peoples' lack of preparation, a surprising number of Melanesian leaders, including probably a majority of those from Solomon Islands and the New Guinea Highlands, opposed early independence. The Australian and British governments countered these misgivings with generous guarantees of assistance. The subsequent prolonging of tutorial relationships well after Papua New Guinea and Solomon Islands independence in 1975 and 1978 gave the two former wards badly needed growing time and their erstwhile custodians an opportunity to compensate for past neglect. By the time annual Australian aid to Papua New Guinea began to decline, over a decade past independence, it exceeded \$60 per capita. Vanuatu's 1980 separation from its two colonial administrators was less amicable, but terms of support were comparably generous. As will be seen in succeeding chapters, massive immersion in funding and advice, although clearly superior to alternative courses of action, has complicated as well as accelerated Melanesian adaptation to the world market system.

Princely Peddlers in Indonesia

The rulers of ancient Indonesian agricultural kingdoms of the eighth to thirteenth centuries seemed both to look down on trade and to rely on it as their principal means of support. Internal trade was taxed through an extensive system of toll houses established by the king and his vassals. External trade was often a royal monopoly. Existing trade statistics suggest a relatively low volume of relatively high priced goods, which some historians have called the peddling of princes.¹¹ The proceeds were required not only to ensure the splendor of the court but, more importantly, to maintain supporters, which were the principal measure of both wealth and power.

Coastal kingdoms, which dominated Java and other islands of Indonesia from the fourteenth to the seventeenth centuries, shifted the focus of Java's economic activity from agriculture to trade. Wealth, however, continued to be measured in followers. The objective pursued with single minded force by many princely traders was the imposition of absolute monopolies over the principal commodities of the region, particularly the lucrative spice trade. The king of Aceh, for example, not only seized the vessels but burned the plantations of Malaysian competitors in the pepper trade.

Javanese coastal rulers, whose people had been prominent in early Southeast Asian shipping and trade but were principally agriculturally oriented, relied first on outer islanders from Sulawesi, Sumatra, and Borneo, and foreigners from the sub-continent, the Middle East, and China as their business agents. Their city-states consequently included numerous ethnic neighborhoods bound together by trade and, except for the Chinese, a common commitment to Islam. Later, many of their Javanese subjects converted to Islam and became active in commerce. They, too, however, lived separated from those Javanese influenced principally by Hindu traditions. The Chinese and, to a lesser degree, the Javanese Moslems, penetrated the interior to become the principal traders in the agricultural kingdoms. The Indonesian and Javanese word for trade, "*dagang*," reflects this history in that it originally meant foreigner and wanderer. Javanese attitudes toward trade even today show evidence of these earlier associations.

There were, of course, many markets manned by small Javanese traders linking villages with the larger, foreign-controlled markets of the towns. These grew as the scarcity of agricultural land in densely populated Java led an increasing number of peasants to engage in full or part-time trade. Judging from later examples studied by Westerners, these village marketplaces were highly competitive with much haggling over prices.

The failure of Javanese until recently to move from market stalls to larger-scale trade has been attributed to various causes. Some have faulted the social requirement to distribute earnings among too many family members and friends.¹² Others argue instead that the lack of a social structure and system of sanctions for their occupation led small traders to rely on "killings" instead of attempting to build up permanent clientele relationships, thus centering competition between seller and buyer rather than between sellers.¹³ The evolution of a social structure for trade seems, in fact, to have been short-circuited by traditional attitudes toward trade. Social sanctions against overt competition, profit-taking, and the accumulation of wealth led small traders to disguise profits, which consequently tended to become excessive. This deception in turn prevented the building of trust required for dynamic market relationships and strengthened social prejudices against trade. In any event, profit and close social bonds remained for the

Javanese not only incompatible but antithetical, as reflected in the popular maxim "money lost, kinship gained."

The Javanese who became practicing Moslems, often called *santri* (graduates of Islamic schools) to distinguish them from nominal Moslems, followed, of course, somewhat different maxims. A leading American scholar of Javanese traditions, Clifford Geertz, has attributed their interest and success in commerce to the Islamic consecration of thrift, to the emphasis rural Islamic schools in Java placed on agricultural labor, and to a desire to save for Mecca pilgrimages. Contrary to Koranic teaching, successful Moslem farmers, he pointed out, commonly made loans at exorbitant interest rates to nominal Moslem villagers, from whom they lived apart.¹⁴ Although Islamic businessmen were able to make the jump between the village marketplace and the shops and factories of the town, they comprised a "nonconformist, variant, even somewhat denigrated pattern within the local culture."¹⁵

The Dutch first through the East India Company (1613-1799) and subsequently through direct rule (1816-1942) assumed the trade and power of the coastal kingdoms. The once powerful Moslem merchants were reduced to petty traders, and the Chinese middleman role was vastly expanded. The great agricultural kingdom of Mataram subsequently became a Dutch vassal, and its high officials were transformed into Dutch bureaucrats of limited authority and means. The life of Indonesians was, in the words of the noted British historian J. S. Furnivall, "not merely stunted by the suppression of all economic activity except agriculture, it was also vitiated by the nullification of economic laws."¹⁶ The Indonesian role in agriculture appeared in some periods little better than serfdom. The Dutch assumed the Javanese rulers' title to all land and regularly dictated the selling price and, under the 1830-1850 Culture System, the crops of the Indonesian tenants.

As in the case of Melanesia, good intentions sometimes joined economic greed in fostering East Indies colonial policies disadvantageous to the "natives." The harsh Culture System was replaced with a "Liberal" regime (1870-1900), which lifted economic restrictions on both colonists and natives in the expectation that the flourishing of Dutch commerce would lay the foundation for "native" advancement. When it became clear (and acknowledged in the queen's 1901 speech from the throne) that Indonesian welfare had in fact diminished, a new "Ethical" system was in-

troduced which erred on the side of paternalism. This system, which the Indonesians were to inherit on independence, was so highly regulated that it earned the description "gentle compulsion" from a contemporary French observer.¹⁷

In its final years, Dutch colonial policy came to be justified by a popular "dual economy" theory that Indonesians (and other peoples with traditional tropical cultures) were not subject to the same economic laws as Europeans. The theory's author, J. W. Boeke, was both a respected economics professor and a champion of Indonesian rights in his twenty years as a senior colonial official. He argued as late as the 1950s that Indonesians were motivated by social rather than economic needs, reacted inversely to European economic incentives, and thus comprised an economic system separated by an unbridgeable gap from that of the Europeans.¹⁸

From today's perspective, it is difficult to see that the Dutch at the beginning of the colonial experience acted much differently from the rulers they replaced. The Dutch East India Company continued the mercantilist, monopolist policies pursued by the Javanese coastal states. Its superior guns, ships, and access to European markets led to greater initial success and its management and policies to eventual bankruptcy. Furnivall attributed the Dutch Company's demise not only to enormous corruption but to its impoverishing the Indonesians rather than converting them into a market for consumables as the British Company had done in India.¹⁹ Subsequently, the Dutch state played a much more active role than the Indonesian kingdoms in marshalling physical resources, in which it measured its wealth, but little to develop human resources, in which the Indonesian kingdoms measured their power. Geertz in fact charges that Dutch dualistic policy was a contributing cause rather than a response to the Javanese "lack of capitalist spirit."²⁰

Dutch governmental institutions, particularly in earlier periods, also reinforced more than they weakened the traditional Indonesian association of economic rewards with governmental position. When deprived of their traditional tribute from the agricultural sector and transformed into Dutch civil servants, some palace officials turned to practices which even in the permissive colonial environment were labeled corruption.²¹ Many developed symbiotic relationships with Chinese businessmen by exchanging

official facilities for a share in profits. Some noblemen, on the other hand, were able to use their traditional status to become entrepreneurs on their own, reviving a practice of the ancient coastal kingdoms. The rulers of Bali's small principalities in particular turned their kin and followers into stockholders and employees of reasonably successful business ventures. The Javanese royal family of Mangkunegara followed a similar path. Elsewhere in Java and the outer islands, however, Indonesians remained in a separate economic world.

There is substantial evidence that the gap in the "dual" economy was largely created and maintained by colonial education and employment policies over three centuries. Although Indonesian access to schools with Dutch standards was greatly increased in the last years of colonialism, out of a population of about seventy million in 1940 only thirty-seven Indonesians were graduated from tertiary institutions and less than 10,000 from secondary schools in the ceremonies immediately preceding the Japanese invasion.²² The failure of the Dutch education system to keep pace with the population is illustrated by the fact that there were more illiterates in 1940 than at the turn of the century.²³ The great majority of Indonesians participating in the modern sector economy did so as coolies. And penal provisions against workers' breaking their contracts, which were not repealed until the eve of the Japanese invasion, made this employment one of the last relics of forced labor under Western governments. Like Melanesians, Indonesians entered independence with an infinitesimally small portion of the education and practical experience needed to utilize the economic infrastructure their colonial masters left behind.

Moneyed Minorities

Strong, but short-term, economic advantage combined with the frustrations of dealing with poorly understood tropical cultures led the colonial regimes to import rather than develop commercial skills. In Indonesia, the Chinese offered the cheapest and most abundant source with Arabs and Indians filling much smaller roles. In Melanesia, Chinese were joined by Western settlers and large trading companies in providing intermediary business services.

Chinese businessmen preceded the Dutch to Indonesia, but it was the colonial environment which propelled them into a com-

manding commercial role. Dutch East India Company officials at the beginning of the seventeenth century recognized these "industrious, diligent and unweaponed people," living apart but not markedly above the local population, as safe and valuable collaborators.²⁴ Beginning as the Company's buyers of produce, they became the principal suppliers and bankers of Indonesians, tax and customs collectors for the colonial government, and overlords of agricultural lands which by 1796 included over 1,000 villages.

Although their rights to own land and serve as governmental agents were later circumscribed, the Chinese hold on commerce expanded until, at the turn of this century, virtually all economic exchanges between Dutch and Indonesians passed through Chinese intermediaries. Furnivall notes that, in a decade of "liberal" economic policies (1890-1900), per capita Indonesian purchases of rice and cloth declined while revenue from opium, gambling, and pawnshops, all controlled by Chinese, rose dramatically. In the same period, Chinese also used their control over textile imports to take over the production of batik cloth, the largest industry in Indonesian hands.²⁵ The depression of the 1920s, to which indigenous Moslem traders were more vulnerable, further strengthened the Chinese hold on the economy.

The Chinese population in Indonesia grew from roughly 200,000 in the mid-eighteenth century to about 1.5 million at the end of the colonial era, outnumbering the Dutch three to one in Java and thirteen to one in the outer islands. Their economic conditions ranged from poorly paid rubber tappers in Sumatra to multimillionaires in Central Java controlling import-export companies with ties throughout Asia. The Chinese, over time, not only carved out a wide living space between Indonesians and Dutch but managed to become in many ways indispensable to both and thus able to exact substantial tolls.

Chinese success seems due to a number of interrelated assets. As in the case of other minorities surviving on the margins of alien societies, industry, frugality, and adaptability rated higher in their system of values. While approving this "capitalistic attitude toward life," Boeke acknowledged that Chinese "clan solidarity" formed a barrier which equally energetic and ambitious Indonesians found difficult to surmount.²⁶ By living apart, the Chinese were able not only to protect their values but to avoid the support costs of the local society. This isolation also allowed them to cast

themselves in the roles of agents rather than competitors of power holders. Their value as agents to Indonesian leaders came, of course, not only from their industry, trading skills, and political neutrality but their exemption from the Javanese power holders' cultural inhibitions against accumulating profits.

In times of economic stress, social separation has become a distinct liability for the Chinese community. The history of the Chinese in Indonesia is punctuated with mob violence directed against their shops and, at rare times, against their persons. These events cannot be attributed solely to an Indonesian tendency to "run amuck." One of the bloodiest repressions of Chinese was, in fact, precipitated and led by Dutch authorities in 1740. Since that time, economic gain has, for the Chinese in Indonesia, involved trade-offs in security. Among the greater challenges facing the government and the Chinese community of independent Indonesia has been the transformation of this historical legacy into a relationship offering Chinese greater security and Indonesians greater opportunity to compete in the private sector.

Competing with the Chinese in Melanesia were a wide variety of ventures including large trading companies with close relationships to the colonial governments, beachcombers, erstwhile prospectors, and a few Polynesians, including an enterprising, highly successful Samoan lady known as Queen Emma. The fragmentation of the economies of the three Melanesian nations provided a variety of niches for small businessmen, but the lack of transportation infrastructure eventually favored the large trading companies with shipping and other distributive facilities of their own. Until 1972, for example, two large trading companies owned the only wharves in Vanuatu's capital of Port Vila and could thus charge handling fees for virtually all outgoing and incoming cargo.

Paralleling the large Dutch and Chinese export-import businesses of Indonesia were great Australian, British, and French firms such as Burns Philps, W.R. Carpenters, Steamships Trading Co., La Maison Ballande, and Messageries Maritimes. Most were wholesalers, shippers, and retailers of imports as well as producers, buyers, and shippers of agricultural exports. This high degree of vertical integration together with rate setting arrangements and economies of scale permitted these companies to absorb or squeeze out independent operators. The ability of the large trading firms to act as middleman as well as supplier and

exporter largely restricted Vanuatu village level entrepreneurship to storekeeping, according to one Western study.²⁷ Well beyond independence, the great majority of food, automotive, and construction material outlets in Papua New Guinea were affiliates of the first three large trading firms listed above.

Although colonial penury and policies share the blame, the concentration of Melanesia's trade in a few foreign hands is in good part a consequence of its small population being scattered over nearly two million square miles of ocean, mountains, and jungle. Those independent governments wishing to expand Melanesian participation in trade thus faced not only human resource constraints but large capital outlays for transportation and communications infrastructure.

Assimilating Markets and Market Concepts

Wherever the blame might lie, markets and market concepts remained culturally alien while becoming economically vital to mainstream Indonesian and Melanesian societies. Colonial markets were the only connections to the world market system and, for many, to the entire external environment. On the other hand, they were far from models of open competition and efficiency. At the highest level they were quasi-cartels of a few large companies with governmental backing. At the village level, they were usually monopolies in the hands of Chinese merchants/money-lenders in Indonesia and Chinese or Western trade store operators in Melanesia.

In order for Indonesians and Melanesians to participate fully in the market system, major changes were required in the inherited market structure as well as in the attitudes and abilities of the people it was to serve. Structural changes were left largely to the new independent governments, whose experiences are the subject of the two immediately following chapters. Changes in values and attitudes leading to greater and more effective popular participation, discussed in the seventh and eight chapters, followed in a more evolutionary manner. Trade traditions were to complicate both processes.

ENDNOTES

1. Jim Allen, "Pre-Contact Trade in Papua New Guinea," in May, ed., *Melanesia: Beyond Diversity*, pp. 193–203.
2. Ian Hughes, "Stone-age Trade in the New Guinea Inland," in Brookefield, ed., *Pacific in Transition*, p. 104.
3. Kiki, *Ten Thousand Years*, p. 23.
4. Epstein, *Capitalism, Primitive and Modern*, p. 31.
5. Salisbury, *Vunamami*, pp. 176–81.
6. German in New Guinea (Northwest coast of New Guinea island and northern islands) 1884–1917, British in Papua (southern and eastern areas of New Guinea and adjacent islands) 1884–1906, Solomon Islands 1893–1978, and Vanuatu 1906–1980, French in Vanuatu 1906–1980, and Australian in Papua New Guinea 1906/17–1975.
7. Martha Macintyre and Michael Young, "The Persistence of Traditional Trade and Ceremonial Exchange in the Massin," in May, ed., *Melanesia: Beyond Diversity*, pp. 210–213.
8. See in particular Howe, *Where the Waves Fall*, pp. 329–343.
9. Salisbury, *Vunamami*, p. 244.
10. Peter Smith, "Colonial Policy, Education and Social Stratification, 1945–75," in Bray, ed., *Education and Social Stratification*, p. 51.
11. Van Leur, *Indonesian Trade and Society*, p. 133.
12. Higgins, "The Dualistic Theory," pp. 15–16.
13. Geertz, *Peddlers and Princes*, pp. 33, 35; Dewey, *Peasant Marketing*, p. 42.
14. Geertz, *Social History of an Indonesian Town*, pp. 40–41.
15. Geertz, *Peddlers and Princes*, p. 105.
16. Furnivall, *Netherlands India*, p. 45.
17. Bousquet, *A French View of the Netherlands Indies*.
18. Boeke, *Economics of Dual Societies*, pp. 100–112 and Onghokham, "The Decline of Indigenous Trade," pp. 20–21. While Boeke's theories were at the time widely associated with Dutch policy, they were disputed by other prominent Dutch economists. Some cited American examples to show that weaker, less ambitious Western workers relied more on social solidarity than economic incentives to protect their position. See Wertheim, ed., *Indonesian Economics*, p. 25.
19. Furnivall, *Netherlands India*, p. 51.
20. Geertz, *Social History of an Indonesian Town*, p. 54.
21. Onghokham, "Korupsi dan Pengawasan."
22. van der Veur, *Education in Colonial Indonesia*, pp. 14–15.
23. Hall, *History of Southeast Asia*, p. 643.

24. Furnivall, *Netherlands India*, p. 46.
25. Furnivall, *Netherlands India*, pp. 213–214.
26. Boeke, *Economics of Dual Societies*, p. 80.
27. Anne C. Dunbar, “Domestic Shipping: Ownership, Organization and Control,” in May, ed., *Melanesia: Beyond Diversity*, p. 396.

5: POLICIES AND POLICYMAKERS IN INDONESIA

Cultural values and trade traditions are bestowed upon a society by its history, but the degree to which they aid or obstruct economic development is often a choice of government policy. No story could illustrate this fact more clearly than the recent history of Indonesia. Within the past thirty years, Indonesia has seen both the devastating effects of unsound policies and a remarkable resurgence under thoughtful, informed leadership.

In 1957 a University of Indonesia professor of economics wrote a penetrating rebuttal of the Dutch theory that the Indonesian peasants' culture sentenced them to perpetual separation from the economic life of the West. He pointed out that many of the economic incentives villagers appeared to reject were in fact blocked from reaching them by such structural impediments as the monopolist position of Chinese merchants serving as villages' sole suppliers, buyers, and bankers. Drawing on Japan's experience, he suggested that the Indonesian rural masses could be led across the gap in a "dual economy" by an elite with social will and proper capacities to lead and innovate. As prerequisites, this elite must be flexible and open to new membership, he wrote, and the social structure must remain coherent in order to respond to its leadership.¹

The author of this statement, Dr. Mohammad Sadli, was later to join his economics faculty dean, Dr. Widjojo Nitisastro, and other university colleagues in helping to implement the economic policies of Indonesia's New Order in much the manner he had suggested. His words today, thus, seem somewhat prophetic. At the time, however, they appeared highly visionary because Indonesia was on a quite different course. It was, in fact, to travel far down a path leading away from market principles before reversing course.

On gaining independence, Indonesian leaders understandably set their sights, not on the market, but on righting colonial wrongs and establishing national goals based on indigenous values. These values were derived in large part from somewhat idealized models

of village and family life. Since colonialism was popularly associated with the world market and village life was not, the political environment was not favorable for expansion of the private business sector. The rhetoric of most nationalist leaders in Indonesia, in fact, associated preservation of a coherent social structure with rejection of the "individualism," "liberalism," and "capitalism" of the West in favor of the "communal" and "socialist" values of their traditional villages. Building upon mutual help (*gotong royong*) traditions, many leaders advocated as the basic economic unit various forms of cooperatives, for which there were actually few working examples in village life. Most overlooked village markets, where lively bargaining reflects, in the words of one Western observer, "the working of the forces of supply and demand in their most naked form . . ."²

Practical considerations also led Indonesia's first leaders to emphasize the government's role in the economy. The private sector was almost entirely in foreign hands, and prospects of indigenous firms acquiring the talent and capital to assume early ownership and management of these assets appeared remote. In addition, the prevailing developmental philosophy in the West at the time of Indonesia's independence called for massive government intervention guided by comprehensive central planning.

The Downhill Path to "Indonesian Socialism"

Indonesia, during its first fifteen years of independence, was to move gradually at first and then with increasing speed away from a market economy. Its first governments under the parliamentary system contained a small number of intellectuals and Moslem political leaders with an understanding of market forces and a willingness to use them. They initiated programs to stimulate the development of indigenous private enterprise, including an import licensing system designed to break Dutch firms' oligopolist hold on foreign trade and to encourage local entrepreneurs.³ The short tenure of their governments prevented these leaders from making a lasting impact, however, and the import licensing program was, of course, a misguided, market-distorting tool. None of the 5,000 or more license holders succeeded in establishing themselves in a viable business.

Leftist elements gained an increasingly strong voice in later governments of the Liberal Democracy period, and corruption

and mismanagement rose in step with rapidly mounting inflation. Import licenses became the financial support of the Nationalist Party. The author of the licensing system, Indonesia's premier economist Sumitro Djojohadikusomo, realized his mistake and abolished the program when he briefly returned to office.⁴ Succeeding office holders, however, continued to use licensing and other regulatory devices to finance political parties and supporters, with the promotion of domestic industry becoming an increasingly hollow pretext.

As these trends continued, foreign private enterprises in Indonesia found themselves with little domestic commercial competition but formidable political foes. In late 1957 leftist labor organizations began to seize Dutch firms, causing a preemptive move by military forces leading to their nationalization. With the advent of Sukarno's Guided Democracy in 1959, a leftist campaign against other foreign enterprises led to escalating nationalizations and a cessation of foreign capital inflows. Nationalized firms, like the licensing system, became the prey of political forces. The national treasury was drained by chronic routine budget deficits, the mounting of a large military campaign in West Irian, massive corruption, and the financing of the prestige projects and mass organizations required by Sukarno's "nation-building."

By the time Guided Democracy came to its violent end in the 1 October 1965 communist coup and its aftermath, per capita gross domestic product and food availability had declined below 1938 levels. The deterioration of infrastructure was dramatized by the three hours required to drive the thirty miles from Jakarta to Bogor on the nation's best highway. The annual rate of inflation grew exponentially, reaching 1,500 percent in the year ending mid-1966. As a result, the salaries of government employees often covered little more than bus fare, forcing individuals to take two or more jobs and government organizations, including the army, to find other sources of operating funds. The traditional use of position to obtain unearned remuneration was expanded to the point that illegal levies were exacted at all levels for virtually any facility, including the use of public roads. Exports fell below ten percent of gross domestic product (compared to twenty-five percent in 1925), and scheduled foreign debt payments amounted to almost half of total export earnings. Western observers at this time understandably tended to cite Indonesia as "the number one failure among the major underdeveloped countries."⁵

Architects of the New Order

It was from this unpromising position that Indonesia under Suharto's New Order began in 1967 its adaptation to market forces. The task was undertaken much as Dr. Sadli had predicted: by key leaders and their advisers seeking to bring economic incentives to their people while preserving a coherent social structure. Although Sadli could not have imagined when writing these words in 1957 that this dual challenge would be so great, he and his colleagues in the faculty of economics of the University of Indonesia had fortuitously prepared themselves and others for the economic aspects of this challenge.

The genesis of the New Order's economic policies can be traced to two farsighted actions. The first was a 1955 decision by Sumitro Djojohadikusomo, then the first dean of Indonesia's new Faculty of Economics, to send a group of young professors to the United States for graduate training in fields of study stretching across a wide spectrum of economic functions. The manner in which this study was arranged under Ford Foundation sponsorship seems in retrospect to have prepared them to become highly effective couplings between their society and modern economic thought and practices. Because they had each other and their families with them in America as reinforcement, they did not lose sight of Indonesian realities as had sometimes occurred to other Indonesians separated from their culture in a Western setting. On returning to Indonesia, the ability to relate their training to Indonesian problems, in conjunction with the reinforcement they were able to afford each other from their related but different specialties, permitted them to escape the nationalist antibodies which effectively isolated and neutralized "Westernized" intellectuals during the xenophobic Sukarno era. They were not, however, to escape leftist attacks and other hardships attending academics unattuned to the "socialist revolution."

The second provident decision was that of the young professors to volunteer as economic lecturers at the Army Command and Staff College in Bandung. This step was based on the assessment that, if a non-communist alternative for economic development existed for Indonesia, the army would by default lead it. Among their students in Bandung was General Suharto who, with extraordinary skill, was to restore order in the months following

the communist power play and ensure the coherent political and social structure required for the revival of the nation's economy. Suharto called upon the professors to serve first as his economic advisers and then as ministers with important portfolios in his government. Grasping fully the importance of their skills for Indonesia's future, he encouraged them to propose appropriate courses of action and successfully defended those he endorsed against varying coalitions of vested interests.

Such firm leadership was essential because the tough discipline required to open Indonesia to market forces was not only anathema to the New Order's enemies but unpalatable to many of its supporters. The forces that coalesced in the New Order were united in opposing the radical policies of Sukarno and dedicated to an alternative route to economic development. They had not, however, defined this route, and they sometimes focused on different, if usually compatible, goals.

President Suharto and other army leaders clearly looked upon economic development in cooperation with the West as the key to Indonesia's future security. They believed economic stability essential to prevent the communists from rebuilding their popular base as they had done following two previous defeats. Army generals saw realignment of Indonesia's foreign relationships as a means both to obtain development assistance and to minimize subversion by communist states, which they believed to be involved in the assassination of their colleagues. The army leadership had ties with both indigenous and Chinese entrepreneurs, from whom they had obtained some of the extrabudgetary support required to feed their troops. They had, however, an even closer relationship with nationalized firms, many of which were operated by military officers, and undoubtedly expected the much larger state sector to supply the principal thrust for the nation's development program.

The students and their civilian allies, whose mass demonstrations had played a central role in the demise of the Sukarno regime, focused principally on restoring political liberties usurped by Guided Democracy. Most student leaders associated the private business sector with corruption and did not envisage it significantly serving the New Order's goals.⁶ They therefore looked principally to the government to spearhead both political and economic modernization.

Although the term “Berkeley Mafia” applied to Suharto’s team of economic advisers has through usage lost its original suggestion of an alien conspiracy, the group is still sometimes charged with favoritism toward big business in general and foreign firms in particular. Some businessmen familiar with the political environment of the University of California at Berkeley in the group’s student days and the thinking of then chairman of its economics department and later prime minister of Greece, Andreas Papan-dreou, suspected the contrary. In fact, the group, several of whom studied at universities other than Berkeley, evidenced a high degree of impartiality. While its members seem to have considerable respect for market mechanisms, their trust in the world market system and in foreign and domestic enterprises has depended on clear and continuing proof that Indonesia’s national interests are being served.

Along with the great bulk of Indonesian academics and civil servants, the Berkeley Mafia at the beginning of the New Order had a distant acquaintance at best with the private business sector. At times, such as in the renegotiation of oil contracts in 1975, their relationship with foreign investors has undergone serious strain. In the final analysis, however, they have based their policies more on the behavior of capital markets than on suspicions of foreign investors’ motives. Accordingly, they have recommended revision of policies proving to have an unhelpful effect on Indonesia’s credit worthiness or investment climate.

Indonesia’s participation in the Organization of Petroleum Exporting Countries (OPEC) and the movement for a New International Economic Order suggests that its military and “technocrat” policymakers share, to some degree, Third World perceptions that terms of trade under the current market system favor industrialized nations. Its actions in both forums, however, have been responsible and keyed generally to actual market performance rather than ideology.

The Road to Stabilization and Development

All proponents of the New Order recognized that economic recovery required a massive, centralized effort. Even had a viable private sector existed—and it had declined dramatically under Sukarno from a very weak base—it could not have surmounted the massive deterioration in basic infrastructure and the loss of both

domestic and foreign confidence in the economy inherited from the Sukarno era. Central government planning and programs became, therefore, a prerequisite for the New Order's stabilization and development programs. Fortunately, the New Order leadership had neither the skilled manpower nor the penchant to carry this planning to the detail common in other developing countries at the time. Planning specifying only broad priorities and goals has subsequently proved well suited to the Indonesian environment.

The Indonesian government structure has since the days of the Javanese kingdoms been highly centralized. It has also been characterized by a large bureaucracy which, by the end of the Sukarno era, had grown to absurd proportions and was generally acknowledged as grossly inefficient. While concerned by the inertia of the bureaucracy, the military leadership of the New Order was quite comfortable with the legacy of a centralized administrative system, which was a decided asset in restoring physical security and economic stability.

Centralization proved less of an asset in the development phase, however. Some early central programs, particularly those cast as "Presidential Instructions" to bypass bureaucratic impediments, were effective in mobilizing broad efforts to overcome key bottlenecks. The construction of primary school facilities was accelerated in this manner, for example. Other programs not given such special impetus became entangled in the huge bureaucracy or proved unsuited to the wide range of physical and cultural environments of Indonesia.

The central government's efforts to introduce development in the countryside contained the seeds of decentralization. Centrally-supported planning offices in the provinces and local contractors for central programs gradually assembled talent and initiative which were underutilized in a highly centralized system. At the same time, the New Order's close popular identification with the development process and the fading threat of secessionist movements reduced the security concerns which had long justified the centralized structure. Beginning with a 1974 law giving provincial governments increased authority for centralized services, the Suharto government moved gradually toward a more decentralized structure.

Steps have been taken to stimulate more innovation and self-reliance in the provinces. New Order reformers have also moved

cautiously but determinedly to reduce and “rationalize” the civil service, installing realistic wage schedules while demanding greater work discipline. Vigorous campaigns were undertaken in the 1970s in particular to suppress illegal levies (*pungutan liar*) and the corruption which plagued many departments, including most notably the customs service. As in most other developing countries, however, a large bureaucratic structure with a tradition of regulating rather than expediting commerce has tended to slow progress toward market competitiveness.

The first priority of the New Order was to restore the price stability required to promote domestic savings and attract foreign investment, loans, and assistance. A balanced budget was made mandatory, and a relaxation of state controls over banking allowed state and private bank loans to the business sector to become the principal means of money creation. A realistic exchange rate was set and a substantially free exchange market created. The reduction in the rate of inflation – from quadruple to single digits in only four years – far exceeded the most optimistic projections. The demonstrated determination and skill of the new government brought enthusiastic support from the International Monetary Fund, the World Bank, and an impressive list of bilateral aid donors gathered in an Inter-Governmental Group for Indonesia (IGGI). And the institution of a comparatively liberal foreign investment regime combined with the restoration of political stability began to attract foreign private capital once again to Indonesia. Inflationary pressures from both external and internal sources were, of course, to recur in later years of the New Order. Maintaining its emphasis on price stability, the government has reacted with determined, timely, and generally effective measures, including skillfully executed devaluations in 1970, 1971, 1978, 1983, and 1986.

The New Order’s development program has been embodied in a series of five-year economic plans beginning in April 1969. Emphasis shifted from infrastructure rehabilitation and food production and processing in the first plan toward industrial as well as agricultural growth together with increased employment and equity in the second and third plans. The fourth plan placed added emphasis on growth of manufactured exports in order to reduce reliance on oil.

Growth in the per capita gross domestic product rapidly rose to over twice that of the Liberal Democracy era and almost four-times that of Guided Democracy before receding to a more modest level with the collapse of oil prices early in this decade. The average annual growth for the New Order from its inception in 1967 to 1986 was 6.2 percent compared to 3.2 percent during the period of Liberal Democracy (1953-59) and 2.0 percent during Guided Democracy. The agricultural sector has maintained steady growth. Defying most experts' predictions, Indonesia attained self-sufficiency in rice in 1984, a result not only of new rice technology but of price policies geared to market forces⁷. At the same time, agriculture's share of GDP has shrunk markedly with the healthy advance of the industrial and mining sectors. From a small base, manufacturing grew during the 1970s at a rate outpaced only by the Republic of Korea.

Petroleum exports have, of course, provided a valuable cushion for the Indonesian economy. A high rate of GDP growth had been attained before the 1973-74 oil price increases, however, and a well documented study has shown that the improvement in oil terms of trade actually contributed little to the subsequent growth of GDP.⁸

High oil revenues have also had adverse effects. They have in particular caused recurring bouts of the "Dutch disease," in which one highly successful natural resource export reduces the comparative advantage of other domestic industries and pushes them from the market by raising real wages throughout the economy and appreciating the currency. Equally dangerous has been the tendency to spend the foreign exchange from the oil bonanza on uneconomic ventures. Unwise investments and extravagance in fact led to the 1975 collapse of Indonesia's giant state petroleum enterprise, Pertamina, when recession in industrialized countries and a credit squeeze followed the rise in oil prices. The shock of absorbing Pertamina's huge debts led the government to place Pertamina and other freewheeling national enterprises under tighter supervision to ensure better accounting of state revenues. Indonesia's experience with oil income suggests that the "cushion" of a commodity highly prized by the market can also insulate a nation from market forces and dangerously delay the adaptive process.

Developing and Employing Human Resources

New Order policymakers have recognized that growth as well as equity relied on development of the nation's greatest resource, its huge labor force. A substantial portion of oil revenues has consequently been invested in this sector. The fourth five-year plan calls for greater emphasis on education, which has suffered less than other sectors from the budget cuts necessitated by recent low oil prices. In 1985-86 education received almost fifteen percent of the government's total expenditures and about 4.6 percent of the gross domestic product.

School enrollment has grown at an unusually high rate. The proportion of seven- to twelve-year-olds in primary school was estimated to have increased from less than fifty percent prior to the New Order to between ninety-five and ninety-eight percent in 1986. During the past three five-year plans, the average annual increase in enrollments was over twenty percent for secondary schools and twelve percent for institutions of higher education. Such rapid expansion has, of course, resulted in some lowering of the quality of education since it has proved difficult to produce competent teachers at a comparable rate.

Recent analyses suggest that Indonesian manpower skills have not yet reached a level permitting substantial industrial expansion. To help meet this need, the Indonesian government has given priority to the creation within existing universities of polytechnical institutes stressing the practical use of engineering and commercial theory in industry and business. Since 1967, the number of such institutes has been increased from three to twenty and is expected to grow to thirty-two within the next decade.

Basic skills instilled below the university level may now be the crucial limiting factor. Experts conducting a review of the Indonesian system recently recommended strengthening the quality and relevance of secondary education to assure the necessary support base for industry and thus avoid the inverted pyramid experienced by those developing countries producing highly skilled scientific and technical manpower with little infrastructure to support it.

Assuring school graduates jobs is, in the view of most Indonesian policymakers, one of the most serious problems facing the nation in the medium term. The custom of sharing available work and the large number of workers in transitory or unregistered

(informal) jobs have led experts to rely on underemployment rather than unemployment statistics as the more meaningful measures of this problem. A 1982 labor survey showed that forty percent of Indonesia's fifty-eight million economically active people work less than thirty-five hours a week, the usual measure of underemployment, and twenty-four percent work less than twenty-five hours a week.

Judging from past experience, an annual growth in gross domestic product of four to five percent will be required to employ new entrants into the labor force alone. Although this ratio (employment elasticity) may improve as the labor force becomes better educated, a labor intensive economic strategy will also be required to keep Indonesia's underemployment problem in check. Unfortunately, protectionist pressures have tended to push Indonesian policy in a different direction.

Problems of Protection

While the New Order's initial dismantling of import licenses and other controls fostered adaptation to the world market environment, actions in the following decade marked a partial withdrawal to protectionism. Among the stimuli for this step backwards were perhaps serious riots at the time of a scheduled visit by Japanese Prime Minister Tanaka in 1974. Although Japanese businesses were the physical target of demonstrators, it was clear that the government's industrial policies as a whole were under attack. The cushion of oil revenues allowed the government to respond to such pressure by placing new restrictions on foreign investment and giving domestic industry additional incentives and protection in the form of new tariffs, import quotas, import licensing, mandatory use of domestic components in domestic production, and requirements for downstream processing of exported materials.

The effectiveness of this policy has been questioned by many Indonesian economists. They argue that, while Indonesia's large work force constitutes its principal comparative advantage, import substitution policies have biased its industrial sector toward capital intensity. And they have saddled the domestic economy with enormous costs. One analyst pointed out that five large industrial sectors received subsidies equivalent to \$1.50 to \$5.50 for every dollar saved in imports.⁹ Import restrictions have also served to reduce

export earnings. The increased cost of imported components or domestic substitutes has priced many Indonesian products out of the international market, downstream processing in some cases caused export earnings to fall below those formerly received for the unprocessed products, and protected domestic industries have drawn resources from unprotected export firms. Some observers estimate that trade barriers and monopolies may have lowered the growth of the Indonesian GDP by one percentage point annually.

The precipitous drop in oil prices in this decade has placed Indonesia's economy in another period of stress and dramatized the importance of non-oil exports. In response, the Indonesian government during the period 1983–88 undertook what the United States Agency for International Development mission in Jakarta has called "one of the more comprehensive and far reaching sets of economic policy reforms of any country in the world." In addition to courageous austerity measures, these reforms have included the abolition of several costly monopolies, liberalization of the banking structure, the removal of many customs restrictions, a rationalization of the transportation and distribution system, the elimination of a costly fuel oil subsidy, and a drastic reduction of fertilizer and pesticide subsidies. Concurrently, provincial governments, which had relied on the central government for three-fourths of their funds, were granted broader sources of revenue, accelerating a healthy trend toward decentralization.

Many harmful protectionist instruments nevertheless remain. Indonesia's veteran fighter for economic efficiency and one of the New Order's early supporters, Sumitro Djojohadikusomo, has eloquently described the problems they cause. Rejecting an equity argument for protectionist devices, Sumitro noted that import licenses and other restrictions, which he said affected over 1,000 products in 1985, often give oligopolist powers to "vested interests" associated with government officials and departments.¹⁰ The large returns from import monopolies and protected markets have been used in some instances to acquire other domestic holdings and to push smaller companies from the market. Economic austerity has tended, of course, to highlight the privileges protectionism has given to these chosen few. The high economic and political costs of protectionist policies may, in fact, be the most serious issue facing the New Order in its third decade.

Basic trends over the last two decades suggest that the New Order can overcome the latest, protectionist hurdles to continued growth and equity. As in the more successful industrialized countries, economic efficiency in Indonesia seems often to have been sharpened by moments of stress and softened by periods of plenty. Resisting the tendency to turn inward during hard times, which characterized its predecessor, the New Order has sought to adapt to its external environment. This attests primarily to the realism and perseverance of the nation's technocratic and political leadership. But the support other members of the market economy have provided through the World Bank, the International Monetary Fund, bilateral assistance programs, and, most importantly, trade opportunities, has been a crucial contributing factor.

ENDNOTES

1. Mohammad Sadli, "Reflections on Boeke's Theory of Dualistic Economies," *Ekonomi dan Keuangan Indonesia*, June 1957, reprinted in Glassburner, ed., *The Economy of Indonesia*. Sadli suggested that the sole contribution of the Dutch "Ethical" policy to this process was the protection of the Indonesian social structure for a later day.

2. J. A. C. Mackie, "The Indonesian Economy, 1950-1963," in Glassburner, ed., *The Economy of Indonesia*, p. 45. Another scholar of the Indonesian economy, Ross H. McLeod of the Australian National University, in a July 1982 unpublished survey of Indonesia's finance sector, noted that Indonesian policy unfortunately continues to be influenced by an association of capitalism with Dutch colonialism, whose use of coercion and enforced monopoly was, in fact, the antithesis of free market behavior.

3. Glassburner, ed., *The Economy of Indonesia*, p. 79. In 1952, fifty percent of all commercial imports and sixty percent of exports were estimated to be controlled by a few Dutch firms allowed to remain in Indonesia under terms of the peace settlement.

4. Djojohadikusomo, "Recollections, pp. 36-37.

5. Higgins, "Indonesia: the Chronic Dropout" in Higgins, ed., *Economic Development*, p. 678, and Glassburner, ed., *The Economy of Indonesia*, p. 5.

6. In private conversations with the author in 1966 and 1967 some leaders of the student "Action Fronts" said they would not consider a business career since they believed commercial success at that time required bribery.

7. C. Peter Timmer, "The Role of Price Policy in Rice Production in Indonesia, 1968-1982," (Harvard Institute of International Development Discussion Paper no. 196, May 1985.)

8. Sundrum, "Indonesia's Rapid Economic Growth," pp. 63-66.

9. Zain, "Pokok-pokok Masalah," p. 12. The industries were plate glass, tires, three-wheeled vehicles, motorcycles, and polyester cloth.

10. Djojohadikusomo, *Perdagangan dan Industri*, pp. 84-97.

6: MELANESIAN GOVERNMENTS AND THE MARKET

Much as the "Berkeley Mafia" and Suharto worked together to establish successful development policies in Indonesia, so in Papua New Guinea a team was formed of educated civil servants and capable new political leaders to formulate that nation's economic policies. This was fortuitous since a sound start in development was made both urgent and difficult for all three Melanesian states by serious political threats to their newly forged integrity.

Unlike Indonesia and most other Third World countries, Papua New Guinea and Solomon Islands entered nationhood in 1975 and 1978 respectively without a strong nationalist movement or, indeed, a broadly accepted national identity. This deficiency and the lack of economic skills led many in both of these territories to oppose early independence. It was largely the colonial governments' concerns for their domestic and international political images, therefore, which initially advanced the self-government agenda for Papua New Guinea and Solomon Islands. Vanuatu, which saw its independence delayed until 1980 by disagreements between its two Condominium powers, developed a relatively strong nationalist party. The nationalist movement faced entrenched opposition, however, from secessionist movements on two of the Condominium's largest islands. Each of the three governments was therefore charged with the dual task of building a national identity while exerting control over an economy, the market components of which were almost entirely in foreign hands.

Peter Kenilorea, six years before he was to become Solomon Islands' first prime minister, described the dimensions of this dual task. Formal education, industrialization, urbanization, rural development, and even progress were at that time all exotic phenomena to Melanesians, he pointed out. These concepts, he suggested, must first be guided by a common binding agent embodying the basic philosophy and values of Melanesia if they were to serve the people.¹

In defining Melanesian values, Kenilorea and other Melanesian leaders chose to stress the cooperative aspects and de-emphasize the competitiveness of their exchange traditions. Kenilorea in 1972 even rejected party politics, which he argued "encourages self-seeking attitudes, the essence of capitalism, . . . not found traditionally in our communalistic societies of Melanesia."² Michael Somare, Papua New Guinea's first prime minister, recognized that "many of our societies place high value on both individual entrepreneurial activity and on communalistic sharing," but he formulated his initial policies around the latter.³ The need to forge a nation from tribal groupings and to redistribute colonial holdings undoubtedly contributed to Somare's and Kenilorea's emphasis on communal values and equity. These themes also paralleled, and were perhaps reinforced by, the "human needs" approach characterizing mainstream Western development thought at that time.

The Making of Papua New Guinea Policymakers

Eleven years before surrendering sovereignty over Papua New Guinea, Australian authorities introduced its people to representative government through participation in the election of a territorial legislative body, the House of Assembly, which was to lead the people to self-government in December 1973 and full independence in September 1975. Of the thirty-eight Papua New Guineans first elected to this body, all but a handful were traditional big-men with very little or no education. One, a Highlands fight leader with six wives, could not in fact speak any of the three official languages of the House (English, Pidgin, and Motu). Legislative business was consequently conducted almost entirely by its twenty-six elected and appointed "white" members.

In the meantime, the nation's future political leadership was being formed unbeknown to the Australian authorities on the other side of town in an informal students' club at the Administrative College. When discovered, the political activities of these aspiring civil servants were strongly discouraged and placed under close surveillance by Australian authorities. The group nevertheless managed to form the Papua New Guinea United Party (Pangu Pati) which, to the surprise of most observers, elected several of its young leaders to the second House in 1968. One of these, Michael Somare, won handily in his district although he

failed to obtain the endorsement of the area's traditional chief, his father. He was subsequently named Leader of the Opposition. In the 1972 third House of Assembly elections the Pangu won enough seats to form the first pro-independence coalition and to name Somare Chief Minister.

These developments suggested, and subsequent polls were to confirm, that the traditional big-man system could readily adjust to a new method—elections—and a new criterion—education—for choosing its leadership. None of the candidates to the first House of Assembly in 1964 had schooling beyond the tenth grade, and sixty-two percent had no education at all. In the 1982 elections for the National Parliament, however, twenty percent of the candidates had a high school education or better and only five percent had no schooling at all.⁴ Papua New Guinea's leadership came to be characterized by its youth, an appropriate adaptation perhaps to the immense and rapid change the society was required to undergo.

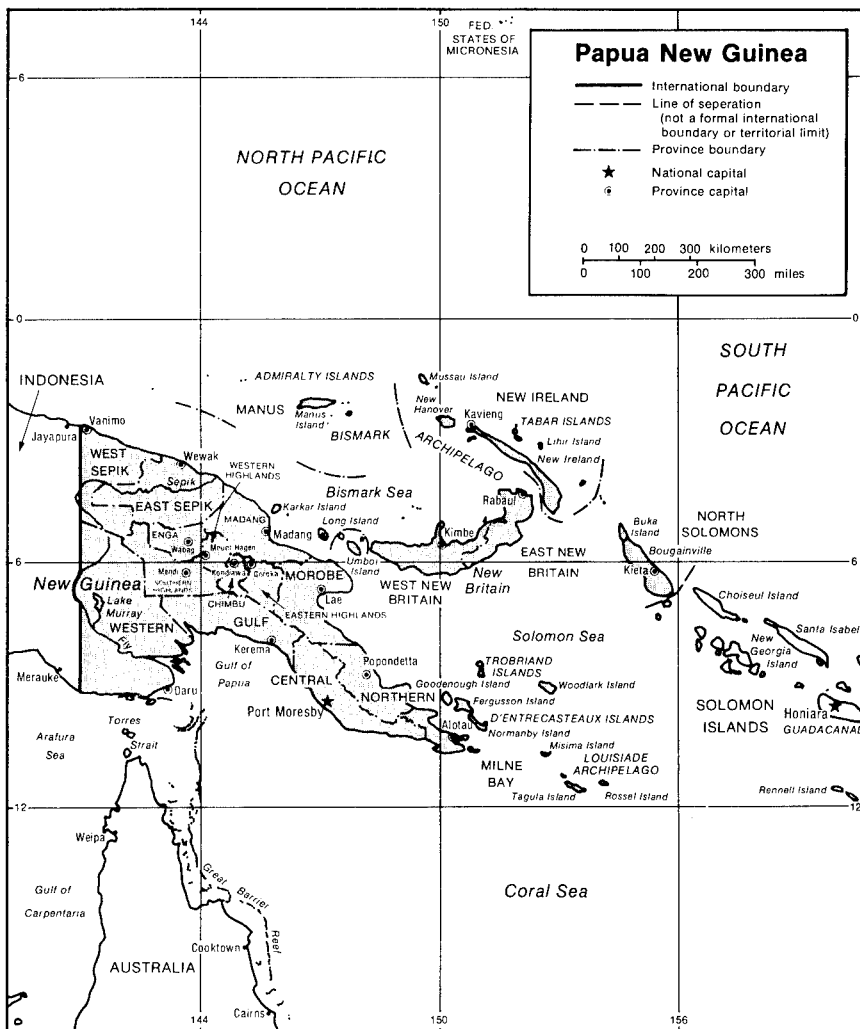
Somare and his party were at the beginning of self-government considered "radical" by many in the Australian administration and the House. In fact, their methods were the open persuasion and coalition-building familiar both to parliaments and to Melanesian clans, and their political goals boiled down to independence under democratic government. As regards their economic goals, the Pangu leaders and their allies seem to have been distantly influenced by the new African nations with similar tribal origins, partly by "communal" values in Melanesian tradition, but principally by a desire to expand Papua New Guinean participation in the economy.

On the eve of self-government, the young Papua New Guinea leadership embodied this development strategy in an eight-point program. It called for a rapid increase in Papua New Guinean control over and returns from the economy, more equal distribution of economic benefits, decentralization of economic activity, an emphasis on small-scale business activity, less dependence on imports, increased local revenue, greater economic participation by women, and "government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development." Elaborating on this last point, Somare said government control and involvement would be restricted to such fields as central banking, aviation, and commercial ventures in

areas not attracting private capital. A massive publicity campaign was launched to introduce the people to these concepts, which one historian described as "a sort of instant government-sponsored ideology."⁵

In retrospect, the actual economic policies of Papua New Guinea's government in the years immediately preceding and following independence in 1975 seem less a product of ideology than of pragmatic adjustment to the domestic and international environments. Both environments were harsh. The nation's commercial wealth and entrepreneurial capabilities were overwhelmingly in foreign hands. Papua New Guineans in the northern islands of Bougainville and New Britain, who had the longest contacts with Western society and consequently the highest level of education and skills, were anxious to share in the extensive mineral and agricultural wealth of their provinces. Many of their leaders believed that the land rights of the giant copper mine on Bougainville and the extensive foreign holdings of rich East New Britain plantation land had been wrongfully acquired. They sought early independence to satisfy these grievances and were more than willing to part company with the less well endowed regions of the territory which disagreed. At the same time, the Papua New Guinea government derived over half its revenue from Australian aid funds, which were certain to be reduced drastically should Australian investments be seized.

The secessionist tendencies of the northern islanders were shared by many "Papuan" in the southern and eastern regions of New Guinea island, but for entirely different reasons. The Papuans feared the people of Bougainville, New Britain, and the other northern districts which made up the former German colony of New Guinea would dominate a unitary state. Finally, most of the one million New Guinea Highlanders, who had emerged from stone age technology only two to three decades before, wanted additional years of Australian tutelage to raise their education and skills to a level closer to that of their lowland and northern islands compatriots. Reconciling the conflicting goals of the nation's principal regions was clearly an overriding concern of Papua New Guinea's first economic policymakers. Since their chances of success were not rated high by foreign investors, heavy capital flights added significantly to the government's worries.



International influences were scarcely more benign. Independence occurred during the economic recession and unprecedentedly high inflation which followed the first world oil crisis. Prices for Papua New Guinea exports, particularly copper, were low and those for imports quite high. Papua New Guinea had no way of insulating itself from the international environment, and its corresponding growth of inflation was popularly associated with self-government. It led some irate housewives, in fact, to invade the chief minister's office in 1974.

These were formidable problems even for economic policy-makers with long experience. Papua New Guinea's leaders had virtually none. They drew principally on Australian and other foreign experts for technical advice, but unearthed as well considerable talent within their own community. Lacking an absolute majority, the Pangu party entered into a coalition with a smaller party with close ties to the business community. Its leader, a businessman of mixed Melanesian-Chinese parentage, Julius Chan, made a capable minister of finance for the newly independent government. After studying agricultural economics at the University of Queensland in Australia, Chan had founded a very successful shipping firm and a number of other business enterprises. He was later to become Papua New Guinea's second prime minister.

Most of the few Papua New Guineans with university training were quickly drafted for key jobs in the national bureaucracy. Four of these, all still in their twenties, stood out. Charles Lepani, an arts graduate from the University of Papua New Guinea, who was later to be his country's first graduate student at Harvard University, became director of the National Planning Office, and the cabinet's chief adviser on economic policy. A master's graduate from a Canadian university, Rabbie Namaliu, headed first the prime minister's office and then the public service. An economics graduate from an Australian university, Makere Morauta, became the top civil servant in the finance ministry; and one of Papua New Guinea's first law graduates, Tony Siaguru, was his counterpart in the foreign ministry. Known as Papua New Guinea's "Gang of Four," these young civil servants played a central role as members of the powerful Budget Priorities Committee in establishing the new government's work procedures and priorities. Namaliu and Siaguru were later to become members of parliament and cabinet ministers. Morauta went on to head the nation's largest commercial

bank. Lepani entered private business but remained a key economic adviser to subsequent Papua New Guinea governments.

Stabilization and Equity Goals

Somare, Chan, and other members of the first cabinet, working together with the new bureaucracy's "Gang of Four" and capable foreign advisers, implemented their policies through a carefully devised planning and budgetary system producing a National Public Expenditure Plan. This system allowed the government to direct its expenditures toward broad policy objectives while imposing budgetary discipline and a ranking of priorities on the inexperienced politicians heading government departments under a Westminster system. At the same time, however, it avoided the rigidities and bureaucratic entanglements which have plagued central planning in other developing countries.

As foreseen by Somare's earlier eight-point program, the government's development strategy focused formally on equity goals. Since it was to be financed, however, by government revenue from large mineral exploitation projects and agricultural exports (in addition to foreign aid), priority was also placed on attracting foreign and domestic private investments to these fields.⁶ And a central element of the development strategy was a "hard currency" stabilization policy designed to keep inflation low and exchange rates stable in order to build confidence in the country's new management.

Economic stability was, of course, also dependent upon resolution of the problems threatening national unity. Somare's knowledge of the disaffected regions from his prior career as teacher and radio announcer and his talents in consensus-building helped the government surmount this challenge. Renegotiation of the Bougainville Copper agreement brought the local people and the central government greater revenue without detriment to the investment climate or to the Australian government's goodwill. A program to acquire foreign plantations and resell them to local owners helped quiet concerns in New Britain, although it was ultimately abandoned when investment in this sector lagged. Most important, North Solomons (Bougainville), New Britain and, subsequently, other provinces were granted elected provincial governments with substantial authority and means. They were, however, accountable under national law for proper use of public funds.

Although dedicated to increasing Papua New Guinean ownership of commercial resources, the new government wisely eschewed radical measures exceeding available entrepreneurial and managerial capabilities. While the large scale investment required to develop the nation's mineral resources could only be met from abroad and perforce led to enclave industries, the government set requirements on mining firms to foster new employment, training and ancillary enterprises. In addition, it took equity position in the large mines and foreign financed agricultural enterprises.

To stimulate local participation in smaller scale industries, the government launched a National Investors Scheme which provided national businessmen loans and funding of feasibility studies. Through an Investment Corporation and a Development Bank, it invested in other private companies or acquired them for resale to Papua New Guineans. The government's commercial portfolio in 1986 consisted of a dozen fully owned state enterprises (including the nation's largest commercial bank and the principal electrical power, telecommunications, airlines, and shipping firms) and direct and indirect equity holdings in some eighty other corporations. Each of the nineteen provinces also fully owned a Development Corporation active in various commercial fields.

By the time Papua New Guinea ended its first decade as an independent nation, it had established a remarkable record for economic stability. Its inflation rate was among the lowest in the world and its currency, the kina, perhaps the strongest of all developing countries. It had experienced three constitutional changes in government without even minor economic or political disruptions, and separatist movements were clearly a thing of the past. The safety of foreign investments was no longer in question.

Substantial progress has also been made toward equity goals. The number of Papua New Guineans participating in the cash economy had risen as had the proportion of the gross domestic product accruing to nationals. Education and health facilities had been markedly expanded. Hard currency and equity policies, on the other hand, had inhibited economic growth, the consequences of which were beginning to be felt.

Toward Economic Growth in Papua New Guinea

A committee of three experts, commissioned by the Australian government on the request of the Papua New Guinea

government to undertake an independent review of the economy, noted in its 1985 report that the gross domestic product had during 1976–83 grown by an annual average rate of only 1.6 percent compared to 2.6 percent for all developing countries and 6.2 percent for those in neighboring Asia. As a result, new job opportunities had lagged behind growth in the labor force, the gap between richer and poorer provinces and between urban and rural sectors had widened, and the proportion of export receipts needed to service the foreign debt had increased rapidly.⁷

In addition to a gradual devaluation of the kina and increased government expenditures and revenue generation, the independent review committee recommended a wide range of measures to reorient Papua New Guinea toward economic growth and a more competitive posture in the international market. This advice bore special weight in that the Papua New Guinea member of the committee, Charles Lepani, had, as the first director of National Planning, been intimately involved in the formulation of the policy now faulted and was highly regarded as an impartial and knowing observer. The committee's prognosis and those subsequently made by the World Bank and the International Monetary Fund identified foreign investment policies, land tenure, the wage structure, import substitution, state enterprises, and decentralized government as areas most affecting national competitiveness.

Most observers give high marks to the Papua New Guinea policy toward foreign investments in the minerals sector, which produces roughly half of the nation's exports. Although successive governments have rightfully prided themselves on "striking a hard bargain" with the foreign mining companies and negotiations have at times narrowly avoided a breakdown, Papua New Guinean terms in this sector have remained internationally competitive. A stable foreign investment policy for other sectors has been more difficult to establish, in part because of frequent changes in the responsible cabinet ministers. Papua New Guinea's administrative procedures for approving investments, like those of Indonesia, have been criticized for being excessively regulatory in nature. The principal deterrents to increased investment—both foreign and domestic—may, however, be the nation's wage practices and land tenure.

The Papua New Guinea wage structure, regulated by a non-market mechanism inherited from Australia, is, in the economic

review committee's words, totally inappropriate to the nation's level of development.⁸ The minimum wage in manufacturing, for example, has recently been about ten times that of Indonesia, and its average non-agricultural wage almost six times that of the Philippines', although both of these neighboring countries have considerably higher worker productivity rates. The minerals sector, where organized labor is concerned, can meet such wages, and mineral royalties combined with large Australian budget subsidies have provided temporary respite for the government payroll. Elsewhere, the wage scale has impeded investment, contributed to unemployment, and inhibited the use of the exchange rate to improve Papua New Guinea's international competitiveness. As in Indonesia, the cushion of a valuable export, in this case supplemented by foreign aid, has proved to be a barrier to important messages from the outside environment. The three experts conducting the independent review of the economy recommended scrapping the centralized wage fixing system in its entirety. This would, however, require greater political strength than Papua New Guinean governmental coalitions have been able to muster.

Land use problems in Melanesia are very different from those earlier surmounted by Korea and Taiwan and faced today by most other developing nations. They arise from the deeply imbedded custom of investing ownership in clans instead of individuals. Land ownership in fact determines group identity in Melanesia to an extent perhaps greater than anywhere else in the world. This interferes with its use as a factor of production. Transfers of title, for example, are difficult to arrange and subsequently may not be recognized by all clan members. The governments of the three Melanesian countries have recognized the severity of this problem. They have themselves, in fact, faced angry clansmen barring access to highways, landing strips, and public buildings in support of property claims based on distant events.

The expert committee in its 1985 review of the Papua New Guinea economy recommended new legislation and procedures which would make more unused land available and encourage clans to undertake development of their properties. Similar legislation is pending in Solomon Islands. This cultural trait appears highly resistant to both political and market forces, however. Complete resolution of this problem might come only after increased mobility and urbanization have weakened traditional ties

to the clan and its land. In the meantime, stricter government attitudes toward doubtful claims might dampen the tendency for clans to seek unmerited compensation.

Although Papua New Guinea's tariff structure has been kept relatively low, there have been growing political pressures over the last few years to mount an import substitution policy. Several investors with political backers have obtained monopoly positions by citing the inability of the small internal market otherwise to support their enterprise. In 1986, the first government of Prime Minister Piais Wingti moved to lift the import monopoly long enjoyed by Australian rice suppliers and the complete protection that had only recently been granted the nation's first meat cannery. Since the more easily stored and prepared rice and canned meat have replaced sweet potato and pork as most Papua New Guineans' staple food, an open market in these commodities is of particular importance.

State enterprises in Papua New Guinea have fared little better than those in Indonesia. Less than one-third of the thirty-seven national and provincial government enterprises engaged in commercial activities in 1985 were making a profit.⁹ Half of these profit-making enterprises were probably rendering less than a normal commercial return on capital.¹⁰ The committee conducting the 1985 review of the Papua New Guinea economy recommended that the government dispose of its holdings whenever possible to release funds for purposes only a government can undertake.¹¹ The state's shipping firm, perhaps its poorest performer, was subsequently sold by the first Wingti government, which also decided to place the national airline on the market. The second Wingti government, installed following the July 1987 elections, is committed to continuing the privatization process.

In contrast to Indonesia, where centralization has caused inefficiencies, decentralized government has compiled high economic costs in Papua New Guinea. While the few provinces with higher education levels have established reputations for efficiency and innovation, more have turned into grab-bags for rapidly changing cabinets composed of incapable and frequently unprincipled politicians. This problem has, of course, affected foreign investments, most of which are located in the provinces and require the cooperation of local authorities. The Papua New Guinea central government has suspended four of its nineteen provincial

governments for gross mismanagement of funds. The basic concept of Westminster government in the provinces was questioned by the Somare government in 1985 and the Wingti government in 1987 noted the need for a review of the system. While the central government has no desire to assume the powers of the provincial governments, means are being sought to assure that the provinces benefit more from the scarce managerial and technological expertise now concentrated in the capital city.

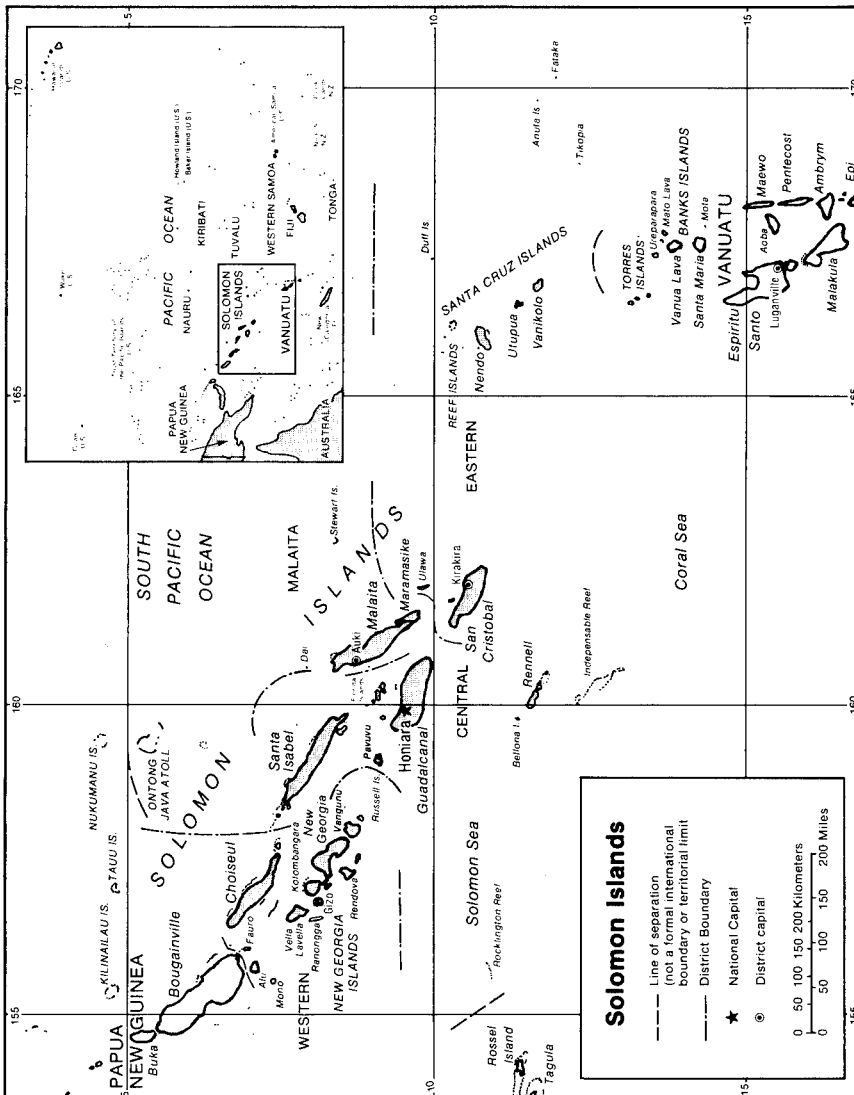
Commodity Dependence in Solomon Islands and Vanuatu

Solomon Islands political experiences as an independent nation paralleled those of Papua New Guinea. Its young leaders were introduced to Westminster government in the years preceding independence in much the same manner. Separatist tendencies in the more economically advanced western islands (adjacent to the separatist Bougainville in Papua New Guinea) made decentralized government a prerequisite for nationhood. And similar if somewhat less serious problems with elected local leaders led its government to request of parliament authority to suspend provincial governments as in Papua New Guinea.

The evolution of Solomon Islanders' outlook toward commerce has also been strikingly similar to that of its larger neighbor. Its leaders were initially concerned more with preserving Solomon Islands culture than promoting economic growth, and they relied on government equity in commercial enterprises (including a costly rice growing project, a more promising fishing venture, and the capital city's principal hotel) to assert more domestic control over the economy.

Solomon Islands' small population, one-twelfth that of Papua New Guinea, makes its cash economy even more vulnerable to outside economic influences, particularly world prices for copra and other tropical products. The growth rate of its gross domestic product closely reflects the world market price of its commodity exports, rising in some years as high as eight percent only to decline in subsequent years by an equal amount. Unfortunately, income from high commodity prices appears to have increased consumption much more than savings.

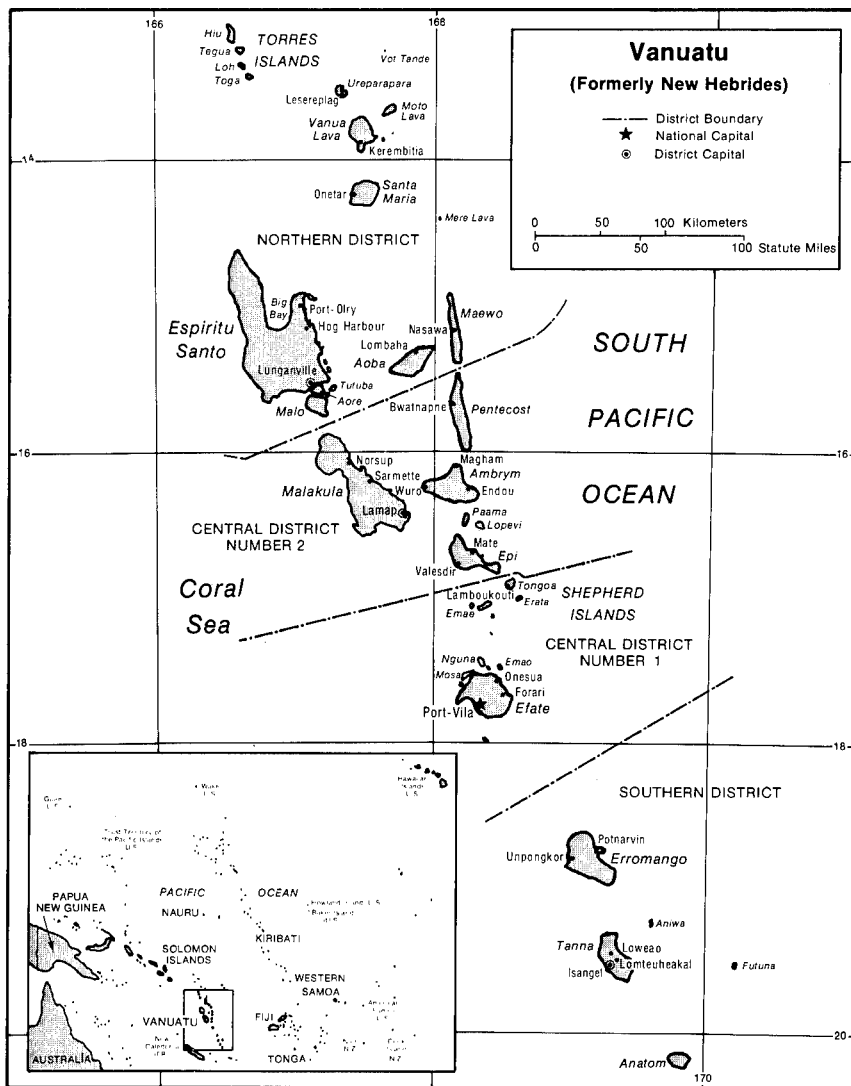
Bad times made worse by a devastating cyclone in 1986 have caused the Solomon Islands government to revise its economic strategy. Parliament adopted in 1985 a new economic development



plan aimed at a five percent annual growth in gross domestic product independent of commodity prices. The cyclone-damaged state rice enterprise was abandoned, and the government spoke of divesting itself of other holdings. (Concurrently, however, it purchased the small airlines serving the country, a political decision which may carry substantial economic costs.) Efforts to develop tourist facilities on a realistically modest scale have superseded fears, shared by many Papua New Guineans, that an influx of foreigners would threaten the village-based culture. And the government began a review of foreign investment legislation to streamline procedures and increase incentives.

Foreign investment in Solomon Islands' only partially explored mineral resources could conceivably transform the nation's economy. A current American-Australian gold mining venture on Guadalcanal Island, in fact, would alone double the nation's gross domestic product if most optimistic projections of the deposit prove correct. This development would solve many of the nation's current problems at the cost of new ones, including massive exposure to the "Dutch disease" which has slowed Indonesia's and, to a lesser extent, Papua New Guinea's adaptation to a market economy.

Vanuatu, with roughly half of Solomon Islands' population and forty percent of its land, is even more at the mercy of the weather and world commodity markets than its neighbor. Furthermore, twenty percent of its land was at independence held by foreigners, compared to two percent in Solomon Islands. The opposition to independence of many French residents, who comprised the great bulk of plantation operators and businessmen, created a much more strained relationship between former colonial commercial interests and the new government than existed in either Papua New Guinea or Solomon Islands. This antagonism was strengthened by French settler support for an armed insurrection against the new government on the new nation's largest island, Espiritu Santo, which was put down only with the help of Papua New Guinea troops. Returning land alienated by French settlers to its original clan owners became a priority goal of the government but was impeded by lack of funds for compensation. The departure of French plantation operators and Vietnamese workers and the lack of new investment lowered commercial plantation and ranch production to three-fourths that of small holders, many of



whom received government assistance. A series of large cyclones, has inflicted massive damage on all export crops.

Vanuatu's government has sought to lessen the nation's dependence on commodities by actively promoting a tourist industry, creating an international finance center for offshore banking and tax-free business operations, and opening a "flag of convenience" registry for foreign shipping. These endeavors have, however, apparently suffered from the government's association with radical Third World forces, including Libya. A realistic assessment of their costs could lead to reconsideration of these ties, which are rooted in the early support radical representatives in the United Nations gave the Vanuatu nationalist cause. In any event, Vanuatu's leaders clearly have no desire to subject their people to the economic or political regimen of their radical associates.

Population Growth and Its Social Consequences

Melanesian governments' current interest in spurring economic growth comes in part from recognition that it will be hard pressed to keep up with the population. With over forty-three percent of its people under the age of fifteen, Melanesia is demographically one of the youngest regions on earth. Its considerable agricultural land resources will soon be exhausted if population growth continues at the current rate of an estimated 2.5 percent in Papua New Guinea and, according to a 1986 census, a whopping 3.5 percent in Solomon Islands. Even now, migration from over-populated areas is causing serious strains. The northern islands provinces of Papua New Guinea, for example, have threatened to repatriate settlers from the Highlands provinces. Migration from the heavily populated island of Malaita has caused similar problems in Solomon Islands.

Unemployment is a serious and growing problem. Although national unemployment statistics are lacking since workers in all three countries move frequently between the subsistence and wage sectors, the 1980 census in Papua New Guinea indicated that thirty-nine percent of the urban residents within the twelve to twenty-five age group were outside the money-earning employment sector and educational system. A drop in employment of approximately thirteen percent in the Papua New Guinea formal sector during the first few years of this decade triggered the Somare

government's shift in 1985 from equity to growth policies, a trend accentuated by the succeeding two Wingti governments.

High unemployment and accelerating urbanization of tribal peoples have led to a serious crime problem in Papua New Guinea's cities. The rate, scale, and accompanying violence of robberies in the capital city climbed so alarmingly in the second half of 1985, in fact, that the government was forced to declare a national emergency and establish a curfew, which allowed the police with military assistance to break up several large, well organized bands of thieves. This crime wave was not, as some supposed, the extension of tribal warfare to the cities. The principal criminal bands were, in fact, of mixed tribal composition, motivated by monetary gain, and tied in many cases to Western fences for disposal of their stolen goods. While the breakdown of clan social control through urbanization was undoubtedly a major contributing factor, the problem arose from the creation of a criminal subculture among the unemployed, a phenomenon well known to the industrialized world.

Urbanization has not proceeded far in Solomon Islands and Vanuatu, whose largest cities have populations of 20,000 and 5,000 respectively. Crime is correspondingly not a serious problem. The very high population growth rate in Solomon Islands suggests, however, that urbanization and the social problems it brings are not far down the road. The capacity of the economy to absorb labor is very low. According to the 1976 census only sixteen percent of those aged fifteen and over were employed in the formal wage and salary sector, and over forty percent of these were in government.

Indonesia's highly successful family planning program has not gone unnoticed among its Melanesian neighbors. The Papua New Guinea government's announcement in the spring of 1987 of its intention to institute a family planning policy seems to have drawn considerable public support. The Solomon Islands minister of Home Affairs after release of the 1986 census also advocated a nationwide program, but similar initiatives in the past have floundered under strong political opposition.

Education, the Key Development Constraint

Education, always the greatest constraint on Melanesia's economic growth, has been given added importance by the rapid increase in population. The literacy rate in Papua New Guinea is currently estimated at thirty-two percent and in Solomon Islands at only thirteen percent. Vanuatu's rate is unknown but is probably close to that of Solomon Islands. According to the 1980 census, fifty-five percent of Papua New Guineans between the ages of twelve and twenty-five had no education, and only six percent had advanced beyond grade ten.

The Papua New Guinean government has accordingly allocated in recent years roughly twenty percent of its budget or six percent of its gross domestic product to education, which places it among the developing world's top spenders. Education's share of the Solomon Islands budget has averaged about 7.9 percent. All three countries began from a very low base, however, and the dispersion of the Melanesian population over some of the earth's most forbidding terrain places a high unit price on school facilities. The progress made is nevertheless evident in the 1980 Papua New Guinea census finding that, while only fifty-four percent of the population was within one-hour walking distance of a usable road, sixty-eight percent were within one-hour walking distance of a community school.

In part because of a belated race to create leaders to meet accelerated deadlines for independence, education in all three countries came to reflect the relatively elitist systems of the three mother countries. The 1983 Papua New Guinea budget, for example, allocated to the primary and provincial high schools, with a total of almost 400,000 students, only two-thirds the funds given the two universities and the four elitist national high schools, which together have less than 5,000 students.

The extreme narrowing of educational opportunities after the sixth year has created increasingly serious problems as the three countries, and particularly Papua New Guinea, progress beyond a village-centered society. Eighty-four percent of Papua New Guinean primary students do not enter high school, and ninety-two percent do not complete grade ten, the minimum level granting access to ready employment in the formal sector of the economy. The education system consequently creates far greater

expectations than it can satisfy. At the same time, needs for skilled labor as well as for university graduates have been met by importing an inordinate number of expatriates. In Papua New Guinea in 1984, for example, expatriates held twenty-five percent of the skilled, fifty percent of the supervisory, seventy percent of the middle management and technical/professional, and ninety percent of the senior management positions in the private sector.¹²

Efforts are being made to correct these deficiencies. The second Wingti government pledged to reintroduce free community education in 1988 and "drastically restructure" the tertiary education system. The World Bank is financing an extensive project to upgrade academic standards in Papua New Guinea provincial high schools. Concurrently, a new model of education is being introduced to provide more skills relevant to village life and self-employment. Because of constraints in the budget and supply of teachers, however, the percentage of students accepted into high schools is expected to decrease further in the next few years. The Solomon Islands and Vanuatu economic situations are also unlikely to permit a significantly higher education budget during the next two or three years.

Political Will and Ways

A consensus seems to have developed among Melanesian political leaders that greater economic growth is essential if their governments are to provide the services which undergird their equity goals. Growth is, of course, most compatible with equity when it occurs in labor intensive areas. The current Papua New Guinea government, like Suharto's New Order, has wisely placed emphasis on the agriculture sector, which is characterized by a large number of small holders. Since the financing of the Papua New Guinea agricultural loan programs, like those of Indonesia, is made possible from earnings from the minerals sector, it can be regarded as a redistribution of income which helps slow the rural-urban migration and resulting social problems. In fact, however, the agriculture sector also offers promising economic returns on investment. Papua New Guinea has competitive advantages in coffee and cocoa, for example, which are popular small holder crops.

Melanesian leaders are coming to see that economic growth requires not only increased capital investment but greater openness to the external environment. As in the case of Indonesia, this

change in outlook has been brought about in part by recent economic stress and anxieties about the future. A drop in the prices of their key export commodities, copper, copra, and palm oil, coincided with a reduction in tourism from Australia as a result of its currency devaluation. Sizable cuts in aid from Australia and the United Kingdom added significantly to this concern while strengthening Melanesian determination to lessen lingering dependency.

Transforming this nascent political will into action is not, however, a simple matter. The heads of departments in all three Melanesian governments are, in the Westminster tradition, politicians with constituents to worry about and election campaigns to finance. The latter can be costly because of the obligations exchange traditions place on aspiring leaders. A recent parliamentary candidate in a New Guinea Highlands district with less than 3,000 voters, for example, spent \$30,000 acquired through the sale of his house only to lose by a considerable margin. Protected business interests have become a principal source of campaign funds for many candidates, as Papua New Guinea newspapers have been quick to point out.

There are other features of the Melanesian political system, however, which help protect a free and open market system. The highly competitive and open nature of politics in Papua New Guinea and Solomon Islands combined with the aggressiveness of their press attach a high risk to use of office for personal gain. Both governments have in recent years dismissed ministers following exposure of questionable business deals. Twenty-four members of the Papua New Guinea parliament, including six ministers, were investigated for corruption in 1987. Public punishment of wrongdoers is likely to make such practices less prevalent in the prestige-conscious Melanesian societies. Even if improper arrangements can be concealed, they may be of limited duration because of the rapid turnover in ministers and governments.

The pragmatic nature of Papua New Guinean and Solomon Islands politicians aids in the formulation of sound economic policies, but their intense competitiveness sometimes impedes policy implementation. The relatively narrow range of policy differences among Melanesian politicians minimizes radical changes in overall direction but facilitates switches in political loyalty. And the latter can, in turn, cause discontinuities in administration.

Papua New Guinea must be the only country in the world where the deputy prime minister has switched roles with the Leader of the Opposition over the weekend and where members of two "opposition" parties have sat in the government. Prospects of better jobs for three or four members of parliament can quickly rob a prime minister of his majority. In fact, three changes of government in Papua New Guinea and one in Solomon Islands seem to have occurred in such circumstances, with policy differences playing a secondary role. As a result, prime ministers sometimes have little control over individual ministers. Numerous cabinet changes can immobilize the public service employees of the affected ministries or, more often, encourage them to go off in a direction of their own choosing.

The reorientation of government policy toward economic growth and enhanced competitiveness in the world market is, therefore, likely to be a gradual and uneven process in Melanesia. This has been the case in most industrialized countries, however. And the distance the Melanesian governments have come in the short period in which they have controlled their economic affairs suggests they will reach their objective.

The emphasis both the Melanesian and Indonesian governments have placed on growth, diversification of exports, and rationalization of state enterprises could eventually make the private sector a more equal partner in national development. Prospects for this occurrence are examined in the next two chapters, which focus on the formation of entrepreneurs and business managers in the two societies.

ENDNOTES

1. Peter Kenilorea, "Political Development," Sixth Waigani Seminar, *Priorities in Melanesian Development*, p. 23.

2. Ibid. p. 25. After the Westminster system was adopted for an independent Solomon Islands, Sir Peter, of course, became that nation's most prominent political party leader.

3. Somare, *Sana*, p. 110.

4. Mark Turner, "Changing Educational Levels among the Political Elite, 1964-82" in Bray, ed., *Education and Social Stratification*, p. 82.
5. Woolford, *Papua New Guinea*, p. 220.
6. Allan and Hinchliffe, *Planning Policy Analysis*, pp. 24-26.
7. Goodman, Lepani and Morawetz, *The Economy of Papua New Guinea*, p. 3.
8. Ibid., p. 67.
9. Ibid., p. 148.
10. Trebilcock, *Public Enterprises*, p. 61.
11. Goodman, Lepani, and Morawetz, *Economy of Papua New Guinea*, p. 150.
12. C. L. MacKay, "Private Sector Localization & Economic Development in Papua New Guinea," (Discussion Paper No. 12, Institute of National Affairs, Port Moresby, 1984.)

7: ENTREPRENEURS AND MANAGERS IN INDONESIA

While enlightened governments are initially crucial, developing economies must ultimately rely on individual businessmen to carry their banner in the world market. In Indonesia, the emergence of capable business leaders has been complicated by a huge state sector insulated until recently from market forces and by a Chinese minority's domination of the private sector. But inspiring examples of success in the cities and encouraging results from small business programs in the provinces carry signs of change.

The new generation of Indonesian entrepreneurs and managers enter a somewhat cluttered and confused landscape. The dramatic discontinuities in Indonesia's economic history—from the Islamic coastal trading states to Dutch colonialism, Liberal Democracy, Guided Democracy, and today's New Order—have added to the heterogeneity initially decreed by its ethnic makeup. Asked today what his government is doing for its business community, an Indonesian is likely to respond, "which business community?" The small Islamic trader whose fortunes waned with the Dutch, grew under Liberal Democracy, and fell again under Guided Democracy retains a separate identity today alongside the Chinese, whose golden age was the colonial era but who have also prospered in later years, the state enterprises created in the early days of independence and during Guided Democracy, and the multinational corporations of the New Order.

The Indonesian Business Communities

Reflecting this diversity, business firms in Indonesia's New Order are divided by law, policy, and popular perceptions into four separate compartments. The divisions between foreign and domestic enterprises and, within the latter category, between state and private enterprises are, of course, quite clearly marked in law and policy. The private domestic sector is, in turn, separated into Chinese and indigenous (*pribumi*) enterprises occasionally by law, more often by government practice, and most distinctly by public



Typical Indonesian Market in Cipanas, West Java

perceptions. These divisions reflect, in part, perhaps an ongoing compromise between competing development philosophies and interests. They might also be described as the interim outcome of efforts to make maximum use of existing resources. In any event, the dynamics of this mix present both opportunities and dilemmas to Indonesian policymakers wishing to promote indigenous entrepreneurs and managers—and to Indonesians aspiring to these roles.

The return of multinationals and other foreign enterprises to Indonesia is the most visible and in some respects the most controversial change resulting from its rejoining the world market system. Indonesia's political and economic history up to 1967 made foreign investment a highly sensitive and suspect issue for most of its people. It also caused most foreign investors in 1967 to place Indonesia in their highest risk category. The New Order leadership's decision to offer the very favorable terms required to attract foreign firms was therefore a courageous effort to alter the course of history by changing the perceptions of foreign investors and Indonesians toward each other.

This adjustment has perforce been gradual. As Indonesia's credit rating improved and eligible Indonesian participants in joint enterprises increased, the government graduated to successive "generations" of contracts providing the government improved financial returns and Indonesian partners and employees greater roles. These measures reduced political opposition to the rapidly growing foreign commercial presence but caused measurable strain with investors. This strain was in turn eased, however, by increased Indonesian awareness of the policy requisites for retaining investors' confidence.

As in other countries, Indonesia's investment climate has fluctuated with external and internal developments, but the long term trend has been upward. Today, the facilities offered investors are still somewhat less favorable than those of neighboring countries with more extensive infrastructures and greater experience with foreign investors. The high costs of the economy as a result of sole importer licenses, quota restrictions on raw materials, and import tariffs are a key deterrent to foreign investment. The complexity and uncertainty of Indonesian regulations have also been cited as inhibiting factors.¹ While labor costs are low in comparison with most neighboring countries, the scarcity of skills combined with

regulative restrictions have discouraged some labor intensive industries. Indonesia's two semiconductor assembling plants closed, for example, when prices in this industry declined.

Foreign firms with the patience and flexibility to adapt to the local environment have usually found the adjustment well worthwhile, however. The number of such firms is now substantial. In the period 1967-85 non-oil foreign investments totaling approximately \$15.3 billion were approved of which about \$6.4 billion, primarily in the manufacturing and mining sectors, had been implemented.

Recent reforms indicate that the Indonesian government is moving from a regulatory to a promotional stance toward foreign investment. This move combined with abolition of protectionist measures would greatly improve its competitiveness vis-à-vis such neighbors as Singapore, Malaysia, and Thailand. These reforms were stimulated principally by balance of payments considerations, but there is also growing awareness that foreign firms are a valuable source of technological and managerial skills.

Indonesia's largest "business community" remains the state enterprises, which accounted for approximately thirty-six percent of domestic investment in 1986. There were in that year 214 separate state enterprises. Of these, twenty-three are financial institutions controlling over eighty-two percent of Indonesia's total bank assets. The remaining enterprises stretch across a wide range of industries and are particularly prominent in oil, petrochemicals, steel, aluminum, tin, fertilizers, cement, paper, transportation, and communications. They employ about twenty percent of the work force in large and medium industries and account perhaps for as much as one-half the value added by large industries. State enterprises are, therefore, a powerful influence on the economy as a whole. This influence prior to the New Order was uniformly negative. The responsibility and efficiency of state enterprises significantly improved when the New Order made them individually accountable for losses and, following the Pertamina crisis, restricted their access to credit.

Increased discipline has, of course, heightened the public sector's contribution to the formation of managerial talent. Since only a few state enterprises are truly competitive in the international market, however, the government in early 1986 announced

that state enterprises were to be reviewed for consolidation, restructuring, or privatization. This appears to be a wise and timely move. Reliance on state capitalism as the driving force of industrialization is, however, deeply imbedded in Indonesian practice. Radical and rapid change would make many Indonesians, including some private businessmen, uneasy.

The division of the private sector into Chinese and indigenous (*pribumi*) sectors poses even more sensitive trade-offs for policy-makers than those between the foreign and domestic, and the state and private sectors. Chinese business acumen, experience, and contacts constitute a national asset which should, in theory, be fully applied to Indonesia's economic development. In doing so, however, the far larger *pribumi* population might well be denied both the experience and the incentives to acquire market skills. The current imbalance is illustrated by the popular but undocumented estimate that Chinese, who comprise under three percent of Indonesia's population, control about three-fourths of its private capital. The emphasis placed on cooperatives and state enterprises by successive Indonesian governments reflects in part an effort to provide the *pribumi* a role in trade more in keeping with their numbers. Very few cooperatives and state enterprises have, however, been effective training grounds in competitive efficiency. Increasing *pribumi* participation in the private sector has thus become a priority matter.

The issue is clouded by mutual suspicions between some private *pribumi* entrepreneurs and their government. Many of the former, as previously mentioned, come from outer-island, Islamic backgrounds and were thus associated by the Sukarno regime and by some military leaders of the New Order with the 1958 secessionist movement. Islamic businessmen in turn have suspected Javanese government leaders of excluding them from business opportunities in order to facilitate remunerative arrangements with Chinese businessmen.

The Suharto government has sought to relieve these historical tensions, on the one hand, by encouraging Chinese to assimilate with Indonesian society and, on the other hand, by granting small *pribumi* firms preferred treatment in such matters as government credit and the awarding of small government contracts. Eliminating general protectionist measures would be politically as well as economically more effective than creating special ones for

pribumi businessmen, however. Import licensing and similar devices not only raise the costs of small businesses but are popularly believed to allow Chinese businessmen associated with government leaders to attain highly remunerative monopolies.

A definitive bridging of the gap between Chinese and *pribumi* businessmen can, of course, come only through closer Chinese association with the upkeep of the broader social system and through greater *pribumi* access to capital, entrepreneurial incentives, and managerial skills. These processes, albeit decidedly long-term, seem to be under way.

The classification of Indonesian businesses by size reveals today a large and growing number of family-sized, primarily *pribumi* enterprises at the bottom, many state, several Chinese, and a few *pribumi* large firms at the top, and little other than Chinese companies in between. Creating the “middle class” associated with the most successful market economies would seem to require some push at the bottom to advance the more capable and some pull from the top in the form of models to emulate. There are some encouraging signs that such push and pull mechanisms are being developed.

Making Small Beautiful – And Bigger

Introduction of adequate capital and know-how to smaller private enterprises presents perhaps the greatest opportunities—and challenges—for advancing market-oriented development in Indonesia. Some of these have existed for centuries in the interstices of a foreign-controlled economy. Small farmers—there are very few large landholders in Indonesia—have traditionally furnished the rural population’s subsistence. Sailing vessels from Madura, Sulawesi, and Banjarmasin successfully competed for certain types of inter-island cargo throughout the colonial period and, some 9,000 strong, are doing so today. An increasing variety of other full- and part-time endeavors have quietly arisen as population continues to exceed available land.

Recent data indicate that the number of small enterprises in Indonesia exceeds twenty-seven million, most of which are in the rural areas and employ an average of fewer than two persons, often family members. Small family enterprises probably account for over three-fourths of total employment in Indonesia and produce the bulk of staple food production, a significant proportion

of export crops such as rubber, coffee, and pepper, and a wide variety of processing, transport, construction, and trading services. If given proper opportunities, these firms could be a prolific source of national entrepreneurship. Expanding employment opportunities in the rural region would also reduce pressures for urbanization, which cause some of Indonesia's more difficult social problems.

For political as well as economic reasons, the New Order placed high priority on using an appropriate portion of oil revenues to assist small business. Its food stock authority, the Board of Logistic Affairs (Bulog), succeeded after some false starts and at considerable cost in building an effective system for distributing new rice varieties together with subsidized fertilizers and pesticides throughout Indonesia. This program and, equally important, wise pricing policies based on market realities allowed rice to rise from 10.41 million tons in 1967 to 26.7 million tons in 1986. One province, West Nusa Tenggara, which had been a chronic food deficit area for generations and a frequent victim of severe famines, has become a rice exporter. The government has also launched a wide range of subsidized loan programs to assist, not only farming, but other rural business endeavors.

While small loan programs served to redistribute oil earnings to needy rural areas, their success in building permanent institutions and practices promoting investment was initially quite modest. A 1983 survey² of ten programs in Central Java offering loans from \$5 to \$750,000 revealed that all the central government programs were being rapidly decapitalized by below inflation lending rates and poor records of repayment. On the other hand, a Central Java provincial program offering very small loans at market rates had achieved the second largest number of loan placements (exceeded only by the special rice credit program), a low six percent delinquency rate (compared to sixty percent for the rice credit program), and a high equity growth rate.

In 1984 a new national loan and savings program along the lines of the Central Java provincial program was established with the help of World Bank loans and United States technical assistance. It has registered similar success. In its initial two years about two million small loans were made to over one million borrowers, approximately seventy-two percent of whom were engaged in trade and processing and twenty-five percent in agriculture. At

the end of 1986 only 3.6 percent of the portfolio was in arrears, although delinquencies are expected to increase with time. Savings accounts increased twofold in the same period.

The phenomenon of dearer money creating a more successful loan program has been traced to several factors. The earlier subsidized loan programs were available only at full service bank branches located at district centers not easily reached by villagers. In contrast, the new program was administered by the state Bank Rakyat Indonesia through village units established for the now discontinued rice lending program. Knowledge that they were participating in a government assistance program led borrowers (and some bank branches) under the old programs to believe repayment was unimportant. The market terms of the new, smaller loans, on the other hand, caused borrowers to treat them like the much higher cost loans traditionally received from Chinese moneylenders.

Like Chinese moneylenders, the village units judged credit worthiness by payback records on small initial advances rather than by collateral and paperwork alien to the village environment. The low returns and risks accruing to the banks under the older programs stimulated minimal placement and collection efforts. Some banks reportedly used them merely to reward their best customers. According to one study, many businessmen believed that the delays, inconveniences, and unofficial payments required to obtain the subsidized loans actually raised their terms to the market level.³ In contrast, the decentralized, self-financing nature of the village units together with profit sharing incentives led to energetic placement and collection efforts.

Twenty years before the national loan and savings program was initiated anthropologist Clifford Geertz pinpointed a key to its success in an analysis of small Javanese traders' preference for expensive Chinese credit over cheap government loans. The traders, he pointed out, were interested not only in obtaining capital but in creating commercial relationships which would secure them a position in the flow of trade. The establishment of permanent and easily understood governmental credit institutions at the village level offered such a relationship at a price below that of the Chinese moneylender.

Indonesia's experience with small loan programs supports Dr. Sadli's contention that the real challenge of introducing a market

economy to Indonesian villages comes in surmounting structural rather than cultural impediments. Although the concept of savings and investment may not be deeply rooted in societies with year-round growing seasons, it can apparently be readily assimilated when normal incentives are placed within reach. As regards the nature of these incentives, central government subsidies seem to be no match for accessible, decentralized, market-based loan programs.

One cannot, of course, conclude from the results of these small loan programs that cultural factors can be safely ignored. On the contrary, loan officers have discovered quite meaningful differences among Indonesian ethnic groups in regard to credit worthiness. The Javanese repayment record is, interestingly, much better than that of some ethnic groups which have traditionally accorded trade and commerce much higher social status. This perhaps reflects Javanese respect for authority. Early studies of Javanese entrepreneurs suggested that cultural as well as capital constraints limited growth of *pribumi* firms beyond a certain size. The social stigma and suspicions engendered by substantially exceeding fellow villagers in visible wealth have been cited in particular. Entrepreneurs also reportedly had difficulty in managing a staff complement too large for personalized, familiar relationships with their employer.

A recent survey of sixty *pribumi* firms in the medium-sized city of Yogyakarta did not fix on these cultural factors as significant constraints, however.⁴ It might be assumed, therefore, that in the larger towns, where medium-sized industries would normally be located, cultural constraints are fading rapidly with time. Another recent study suggests that even some small Javanese traders in rural markets are now able to move up the scale to functions once left to Chinese.⁵

Basic accounting and management skills are, of course, as important as capital for the graduation of small, family enterprises into medium industry. As in the United States, a lack of understanding of cash flows, budgeting, and management concepts together with the low economies of scale have contributed to a high failure rate for small businesses. Combining technical assistance with small business loan programs is impractical in view of the millions of borrowers and the tiny size of the individual loans. Other means are being explored to provide these skills,

however. The Institute for Management Training (Lembaga Pendidikan dan Pembinaan Manajemen) in Jakarta, for example, has with United States assistance established a program to train practical accountants, who can provide small firms simple accounting services for small fees (usually less than a dollar). The Indonesian government is reportedly also considering a new loan program aimed at medium-sized businesses which will combine much larger loans with training.

Government programs to assist small businesses in the countryside have been supplemented by a large number of innovative private initiatives by local leaders, universities, religious groups, and other non-profit organizations. Like the Central Java provincial small loan program, a number of the more successful private projects have served as models for central government programs. A favorite focus of these private initiatives has been the creation and introduction of new technology appropriate to rural skills and resources. Of particular interest are the efforts of Moslem groups, supported by the Asia Foundation, to revitalize in this manner the curriculum of their rural schools (*pesantren* and *madrasah*), many of which had been content to teach the Koran by rote.

The thousands of urban poor seeking a living in the many unlicensed and unregistered occupations collectively labeled the "informal sector" have in recent years drawn increasing attention from Indonesian social scientists and government leaders. They were long considered a social problem since Dickensian living conditions have at times fostered disease and crime. They are now generally recognized, however, as an economic asset—as industrious workers whose food stalls, second-hand clothes, street barbershops, and pedicabs contribute significantly to the gross national product by providing cheap, accessible consumption items, transportation, and other services to the many low-wage employees.

One of their most important activities is the recycling of waste paper, plastic, and cigarette butts. Collectors of such waste, who have become quite specialized, not only contribute to sanitation but serve important substitution and energy conservation goals. The urban poor in Jakarta alone are believed to collect over 150,000 tons of scrap material annually for recycling and reuse in cottage industries. Census data suggest that the informal sector as a whole provides the livelihood of forty to sixty percent of the

urban population. The informal sector is consequently expected to play an important role in absorbing a work force growing in Jakarta alone by 600,000 every year.⁶

The informal sector can, in a modest way, also offer upward mobility and an outlet for entrepreneurial talent. Although statistical data are lacking, a number of individual studies suggest that street peddlers accumulate capital and put it to good use. Instead of being forced into the informal sector by the lack of alternative employment, some rural dwellers may actually choose this means of improving their livelihood. The history of one peddler, Ki Sura, is illustrative. Although Ki Sura's small farm in East Java provided adequate subsistence for his family, it was too far from roads to permit him to market the surplus and accumulate savings. He therefore migrated to Jakarta, worked for several years as a public washroom attendant, and invested his small savings and loans from newly made friends in used magazines, books, and handicrafts which he repaired and sold. His earnings allow him to send three children to school in Surabaya, support another five family members in Jakarta, and dream of buying a home.⁷

The government's role in fostering the informal sector's contribution to production, employment and entrepreneurship has understandably been difficult to define. Authorities are reluctant to extend the national small loan program to city centers since it would likely increase already high urbanization rates and it depends in great part on social networks missing in the city. Government encouragement of a street peddlers' cooperative for savings and loans, has apparently met limited success because of peddlers' distrust of cooperative arrangements arising from previous experiences in rural areas. The Jakarta city government has, however, undertaken a small loan program which might help define future efforts. Municipal traffic, sanitation, and beautification programs have predictably conflicted with the informal sector's interests. The press has, however, allied itself with the street peddlers in opposing instances of official harassment.

Models of Entrepreneurial Success

The encouragement of entrepreneurship at the lower levels of Indonesian society relies, of course, on some proof that this is the way to the top. It is fashionable for Indonesians today when speaking of prominent businessmen to distinguish "facilitated"

entrepreneurs and managers, who have obtained their success through government connections, from those relying principally on their own skills and resources. Since the government's role in the Indonesian economy remains pervasive and since business success attracts political attention, it is rare to find a big businessman who has not benefited to some degree from special government "facilities." But it is often possible to distinguish those cases in which entrepreneurial talent preceded and overshadowed any privileged government treatment. There are, fortunately, prominent businessmen from different social backgrounds and various ethnic groups whose histories place them in this category. Although relatively few in number, their histories are becoming known to more and more Indonesians, are serving in the popular mind to define the business potential of their individual social groupings, and are, therefore, worth repeating here.

Outer-islanders, particularly from Sumatra, Sulawesi, and Kalimantan, are generally considered to have provided a disproportionate share of Indonesia's entrepreneurship. The outer islands were, of course, in closer contact with the outside world, often had a proportionately smaller Chinese business community, and traditionally accorded traders higher social status. Those outer-islanders seeking a fortune in Java's cities also escaped inhibiting social pressures of their villages and were probably among the more adventurous of their societies.

Some actually competed well with the Dutch. Achmad Bakrie, the son of a small South Sumatran farmer, for example, amassed in the first decades of this century enough capital through trading in pepper, copra, and rubber to found Jakarta's first metal pipe factory in 1959. His firm, now in the hands of a similarly entrepreneurial son, has remained a leader in metal works as well as commodity trading. A Bakrie family foundation finances scholarships in economics and business for needy college students.

Hasjim Ning of the West Sumatran Minangkebau people, although the son and grandson of successful businessmen, began his career by washing cars. After rising to lieutenant colonel in the revolutionary army, he returned to the automobile industry, eventually becoming chairman of the board or president of eleven large companies.

A West Sumatran Minangkebau of a younger generation followed a similar career tract from much humbler beginnings. As

a penniless orphan of fifteen, Husein Aminuddin persuaded officers of the revolutionary army to accept him as a recruit. His intelligence and energy were quickly recognized by his military superiors, who helped him attain training in the textile industry and eventually an advanced degree from Cornell University. Although Aminuddin's relationship with the army afforded him some protection when he later established a spinning mill, he received from the Sukarno regime no facilities and considerable harassment for his anti-communist views. Early in the New Order, he financed entirely from profits the nation's most modern spinning mill and, far from requiring protection, exports high quality yarn abroad. Reputedly a workaholic who avoids Jakarta's social life, Aminuddin's net assets are now estimated at well over \$100 million.

A prominent New Order entrepreneur from the northernmost Sumatran province of Aceh, Abdul Latief, began his business career as an employee of a state enterprise. When a large state-owned department store turned down his ideas, he left to implement them on his own. He now owns one of the nation's finest department stores, a Singapore subsidiary, a clothing factory, and a company producing and marketing handicrafts.

A few Sumatrans made a fortune at home. Among them is T. D. Pardede, who parlayed his North Sumatra Batak clan ties into an asset. Beginning as an apprentice truck driver who traded at every stop, he graduated to coffee stand owner and then sugar dealer. Trading in sugar and other commodities brought him a fortune during the Japanese occupation and allowed him to serve as unofficial quartermaster for independence forces in Sumatra. As provincial leader of the Nationalist and later the Democratic parties, Pardede is among the few *pribumi* businessmen who have formally entered politics. It can be assumed that his highly successful textile ventures profited from substantial government facilities in the Liberal and Guided Democracy eras. Nevertheless, his business successes began before and, despite some difficulties, extended beyond his party's participation in power. They now include large hotel and cold storage ventures.

On the island of Java, the Sundanese of Bandung are often considered most entrepreneurially inclined. Harlan Bekt, who helped found and for many years chaired Indonesia's principal organization for business leaders, helped build this reputation. He

cites his first successful business venture—selling Japanese language books on the eve of World War II—to emphasize the importance of “doing things in season.” As a student, he too became a quartermaster for the independence army before embarking on a variety of commercial ventures. Beki found that his initial endeavors fared best when located outside his home area. To succeed in business, he pointed out, “it is better to go where there are no friends.” Beki founded eight firms spanning construction, textiles, market research, and management services.

The New Order generation of entrepreneurs includes a Sundanese by birth but Javanese by adoption trained for a completely different career. Iwan Tirtaamadjaja, after taking a graduate degree in international law from Yale, forsook government employment to establish a firm marketing traditional Indonesian textiles. He promoted local production of various regional textiles, became himself a noted batik designer, and established a thriving export trade with outlets in the world’s principal cities. He is credited with reviving ancient textile crafts in a number of Indonesian subcultures. His commercial success, however, stems principally from the innovative use of traditional art to create completely new products appealing to an international clientele. In this sense, his work is an ideal adaptation of traditional culture to the modern marketplace.

Although generally considered the least trade oriented of Indonesia’s ethnic groups, the Javanese have, in fact, produced several outstanding entrepreneurs. Among them is Soedarpo Sastrosatomo, in his wife’s words, a “very traditional Javanese.” As a young information officer representing the then unrecognized Indonesian government at the United Nations, Soedarpo was introduced to international markets during his brief residence in New York. New York’s commercial life taught him, he said, that business, far from being shameful as his own culture had taught him, is in fact a source of national power. Preferring the freedom of commerce to the regimentation of government service, Soedarpo on returning to Indonesia used his savings to establish a small import-export firm and shipping agency. In time, his small shipping firm became Indonesia’s largest private integrated transportation company with nine seagoing vessels, a number of smaller, specialized vessels, and a large trucking fleet. A separate firm, the Soedarpo Corporation, has become a leader in computer and elec-

tronic systems, office equipment, and pharmaceuticals. Soedarpo's ability to select foreign technology matching Indonesia's needs and capabilities appears to be a key factor in his success.

Bob Sadino, the son of a Javanese teacher, is among the best known entrepreneurs of the New Order era. After nine years abroad as clerk for a shipping company, Sadino found himself back home, jobless, and in dire financial straits. A friend's gift of fifty chickens allowed him to peddle eggs in an expatriate suburb. His savings financed successively a chicken parts business, a chain of supermarkets, a large sausage and ham plant, and a dried vegetable export firm.

The present chairman of the Indonesian Young Businessmen's Association is also Javanese. Sharif C. Sutardjo, with start-up capital of a few hundred dollars from his school teacher mother, began by imprinting T-shirts and milling tapioca flour. Today at age 39, he heads a business group active in shipping, leasing, agribusiness, and international trade.

Many more Javanese seem to be viewing private business as an honorable as well as rewarding occupation. A 1980 study of businesses in Yogyakarta, the center of traditional Javanese culture, indicates that, while most Chinese firms have been handed down to the founder's children and grandchildren, "appreciable numbers of *pribumi* families are becoming involved in the non-traditional business sector for the first time."⁹

As in virtually all traditional societies, women seldom occupied formal positions of power in Indonesian cultures. On the other hand, they were accorded much higher social status than in most other predominantly Moslem countries, and their informal power over family finances usually substantially exceeded that of males. This was particularly the case within those ethnic groups, such as the Javanese, where trade was not regarded a gentlemanly profession. A study of rural Javanese women has shown that their authority extends well beyond the household to the community's economic resources.¹⁰ Some suspect a similar phenomenon occurs in urban settings and even at the national scale. As business has in recent years gained higher social status, businesswomen have tended to "come out of the closet."

The West Sumatran Minangkebau society, which is both entrepreneurially inclined and matriarchal in structure, has not surprisingly produced some of the best known businesswomen. A Minangkebau woman, Rukmini Zainal Abidin, became in 1953 the proprietor of the first Indonesian-owned pharmacy and a year later the founder of its first drug manufacturing firm. These now greatly expanded enterprises together with a cosmetics factory and a drug import business managed by her husband have made the Abidins one of Indonesia's most successful entrepreneurial families. Dr. Rosita Noer, perhaps the most prominent Minangkebau representative in the New Order generation of businesswomen, left medicine to manage the family's spice plantation and export business on her father's death. She expanded the business, which is now managed through nine separate firms, and became a leader in national business associations.

The Javanese also have some notable examples of women entrepreneurs, including Mutiara Siti Fatimah Djokosoetono. When her professor husband died, Mrs. Djokosoetono, who holds a law degree, used the family's two cars to begin a taxi business, which eventually became one of the capital's largest. Her profits have helped finance a tourist bus company and an electric bulb factory.

The broadly held view that entrepreneurship is a combination of innate traits which cannot be instilled but can only be encouraged by others holds out more optimism than one might suspect for Indonesia's future. The fact that there have in the past been highly successful entrepreneurs of both sexes in all of the principal ethnic groups despite a decidedly discouraging cultural and governmental environment suggests that Indonesians are as well endowed as others in the necessary qualities. As initial New Order experience indicates, improvements in the environment, particularly in the form of freer markets, are the key to increasing their numbers.

It would, of course, speed the process if entrepreneurship could be taught in classrooms. One concerned institution in the early years of the New Order actually sought to do so by introducing Bandung businessmen to a course in American psychologist McClelland's precepts of entrepreneurship.¹¹ It discovered in follow-up assessments, however, that the profits of graduates, many of whom were genuinely imbued with a new spirit of risk-taking, dropped below those of an untrained control group. These

results suggest that traits benefiting entrepreneurs in Western societies can have an opposite effect in the traditional Indonesian environment. Governmental and private institutions have since wisely focused on transferring more culturally neutral skills, including in particular the managerial techniques necessary to sustain, expand, and pass on to future generations the fruits of entrepreneurial endeavors.

Indonesia's more successful entrepreneurs have recognized the need to complement their native talents with modern managerial methods. Some, like the spinning mill owner Husein Aminuddin have acquired managerial skills themselves through formal education. Others, like the Jakarta "chicken king" Bob Sadino, have confided financial and technical details to a trained family member or associate, in Sadino's case a niece, graduate of the Bandung Institute of Technology. Most have ensured that young family members are educated in management related fields, and some of these offspring, such as the sons of pipe manufacturer Bakrie and the daughter of shipping magnate Soedarmo, have established prominent business reputations on their own.

The Making of Managers

Indonesia's most successful managers have been those who, like the team of economic planners, have molded theories and techniques borrowed from the West to Indonesian realities. Foreign investors with the wisdom to undertake substantial programs for the training and advancement of local managers have often been the sources—and ultimately the beneficiaries—of this transfer of skills. Those firms which have chosen well connected but inactive local partners and attempted to keep management in their own hands have generally fared less well.

The first prominent Indonesian manager of a large multinational was Julius Tahiya, a native of Sulawesi and currently chairman of the board of P. T. Caltex Pacific Indonesia. Tahiya, who headed Caltex operations in Indonesia during the Sukarno era, is generally credited with preserving the company from many of the indignities and losses which descended at that time on most other oil companies. In addition to guiding Caltex into the New Order, he has founded his own firms and served as the patron of a younger generation of executives. Among them is his successor, Haroen al Rasyid, one of several Indonesians with engineering

degrees and experience who have moved to the top ranks of management.

The Freeport Indonesia mining firm, one of the earliest and largest investors in the New Order period, chose as its first Indonesian president a man with relatively little prior business experience. Ali Budiarjo, like other talented Javanese, made his career in the government service and, after retirement, in a private law practice. As vice-president and then president of Freeport Indonesia, however, he helped guide the company through a difficult period of negotiations with the host government and with labor.

Perhaps the top success story among the younger generation of multinational managers is that of Tanri Abeng. Abeng, the orphaned son of a farming family of modest means, worked his way through high school and university remaining always at the top of his class. He spent a year in the United States as a high school exchange student, and returned there for a master's degree in business. After serving as Union Carbide's financial and marketing director, he was at the age of thirty-seven chosen to head Indonesia's largest beer and soft drink manufacturer, a Heineken affiliate. Under his leadership, this firm significantly increased its products, profits, and assets. Abeng has been a leader in organizations to upgrade the professionalism of Indonesian managers. Like other members of Indonesia's small but dynamic community of young executives, he has helped stretch Indonesia's limited management assets by investing his earnings and spare time in small domestic companies.

The longer established multinationals have recently begun to fill top management jobs from within the company. The Indonesian affiliates of Unilever, Standard Vacuum, and Siemens, for example, have during this decade filled their highest positions with employees with twenty to thirty years' company experience.

Those Indonesians who combine technical expertise with managerial talent are, of course, in particular demand. Best known among this group is Bacharuddin Jusuf Habibie, who rose high in the home office of a multinational before moving to the top echelons of his government. After taking a doctorate in engineering at Aachen Technical Institute in 1961, Habibie joined Messerschmitt-Boelkow-Blohm, becoming its vice-president for applied technology. Called back to Indonesia in 1974 to serve as

the president's senior adviser on science and technology, he later became president-director of the state aircraft assembly and manufacturing corporation and minister of state for research and technology. Habibie has, in a surprisingly short period, brought Indonesia to the forward ranks of technological development in the Third World. The costs in budgetary outlays and in protectionist policies have, however, been high and the subject of some controversy.¹²

State enterprises, which have been over-regulated in most respects but under-regulated in assuring financial responsibility, are not known for producing top managers. Some have seemed to defy management altogether. When a manager has grabbed hold of a state enterprise, however, its size and role in the economy can make his deeds, good or bad, of some consequence.

The most controversial state enterprise manager is undoubtedly Ibnu Sutowo, the president-director of the state oil company Pertamina from its formation until shortly after its \$10 billion debt burden fell on the government in 1975. Earlier in his career, Ibnu Sutowo would probably have been picked in a public poll as one of Indonesia's most talented entrepreneurs. A physician who enrolled in the army during the revolution, Ibnu Sutowo quickly became known as an energetic and highly effective organizer. His success in building up Pertamina, his can-do attitude, and the apparently huge sums of oil profits at his disposal led others to confide to him tasks and opportunities far removed from the oil business.

Had he been risking his own money, his predicament when caught heavily overextended at the time of a worldwide credit squeeze would probably have been charged off to a lapse in good judgment and a lot of bad luck. As it was, the news that bankruptcy had crept up on the public's greatest corporate asset while its manager maintained a markedly extravagant life style and a few key associates diverted millions of dollars to private overseas bank accounts brought student demonstrators into the streets. Some have complained that Ibnu Sutowo's actions deserved a prison sentence instead of mere dismissal. The system seems to have been the primary culprit, however, and its rehabilitation rightfully deserved first attention. By eliminating economic risk-taking, the open-ended financing of entrepreneurs with government funds ran

a high chance of producing management monstrosities. As previously mentioned, Pertamina's experiences have spawned helpful reforms in the financing of state enterprises.

The state food stock authority, Bulog, has perhaps been the second most popular target for charges of corruption, mismanagement, and misdirected programs. Although few cases have been documented, there is undoubtedly some basis for these charges—as there is for almost all large commodity stock programs in the industrialized as well as the developing world. Experts in the international rice trade, on the other hand, usually give Bulog's chairman, Lieutenant General Bustamil Arifin, exceptionally high marks for managing Indonesia's purchasing and stockpiling of rice in a volatile and, for Indonesia, crucial period.¹³ Perhaps the best testimony to Arifin's planning and management is that, contrary to most experts' predictions, Indonesia, once the world's largest importer of rice, has now attained self-sufficiency. This has reduced the need for interventions in the market and, in fact, for Bulog itself.

A new generation of managers more in the "technocrat" mold has begun to appear in the state sector, particularly in the banks. One of the first was Omar Abdalla, who from a modest beginning on a Sumatran rubber plantation, managed to attain a college education in accounting and to rise from bookkeeper to director of a private bank. On the nationalization of Dutch banks in 1959, he was recruited to manage in succession two of the largest state banks, one of which he restored to good health from a loan default rate of thirty-two percent.

The success of the state Bank Rakyat in implementing its market-based small loan program (described above) owes much to its new president-director, Kamardi Arief. A West Sumatran like Abdulgani, Arief has moved aggressively to instill discipline and financial responsibility in this bank's 3,600 village units and service posts.

The Military in Business

The histories of many prominent entrepreneurs and managers reveal close connections between commercial business and the military, dating from the 1945–1949 revolution against the Dutch. The origins are not difficult to trace. Those in the "45 Generation" with the yearning for change and the courage for risk-taking that is

associated with entrepreneurship were naturally attracted to the armed struggle against the Dutch. While other nationalists and revolutionary organizations had preceded the new National Army, none had so effectively transcended ethnic and religious divisions, breached the hierarchical barriers of traditional society, and promised such success. With the Dutch in control of the economic resources of the nation the army, for its part, needed businessmen as much as infantrymen. At independence some, such as Bakti, Pardede, and Ning, returned to civilian life. Others, such as Ibnu Sutowo and Arifin, pursued their entrepreneurial and managerial careers without leaving the military service. The army from its earliest days to the present has maintained a career track for military officers fulfilling essentially non-military functions.

To preempt the plans of Indonesian communist labor unions the army, as previously mentioned, seized control of several Dutch firms during the 1957 conflict over Irian Jaya and confided their operation to military managers. As military leaders have openly acknowledged, these managers' inexperience resulted in the bankruptcy of several of the large trading firms.¹⁴ Surviving companies were, however, joined by a number of new acquisitions as the army, during the economic chaos of the Sukarno era, sought to assure support for its troops and jobs for its retired personnel. At the advent of the New Order, the army alone owned approximately forty "private" companies. Each of the armed services, the police, and the Department of Defense subsequently established "foundations" (*yayasan*) to supervise their many "work units" or firms.

The central role the military play in the New Order power structure has, of course, raised questions regarding the propriety of a continued role in business. Many military leaders are also concerned that business ventures detract from the professionalism required by modern military technology, which the armed forces have just begun to acquire. On the other hand, the concept of "dual functions" is enshrined in the armed forces' revolutionary charter; many officers have served only in business or managerial career tracks; and the strong emphasis the New Order has placed on economic development, at the expense of the military budget, argues for use of these military assets. A compromise was reached in 1979 by withdrawing all active duty personnel from private firms, including those under armed forces foundations. Military

personnel are also no longer assigned to state enterprises unless requested by the firm's management. Interestingly, 143 of 153 officers in private firms chose at that time to retire from the armed forces in order to continue their business careers. One can foresee a gradual separation of the armed forces from business as specialization in both progresses.

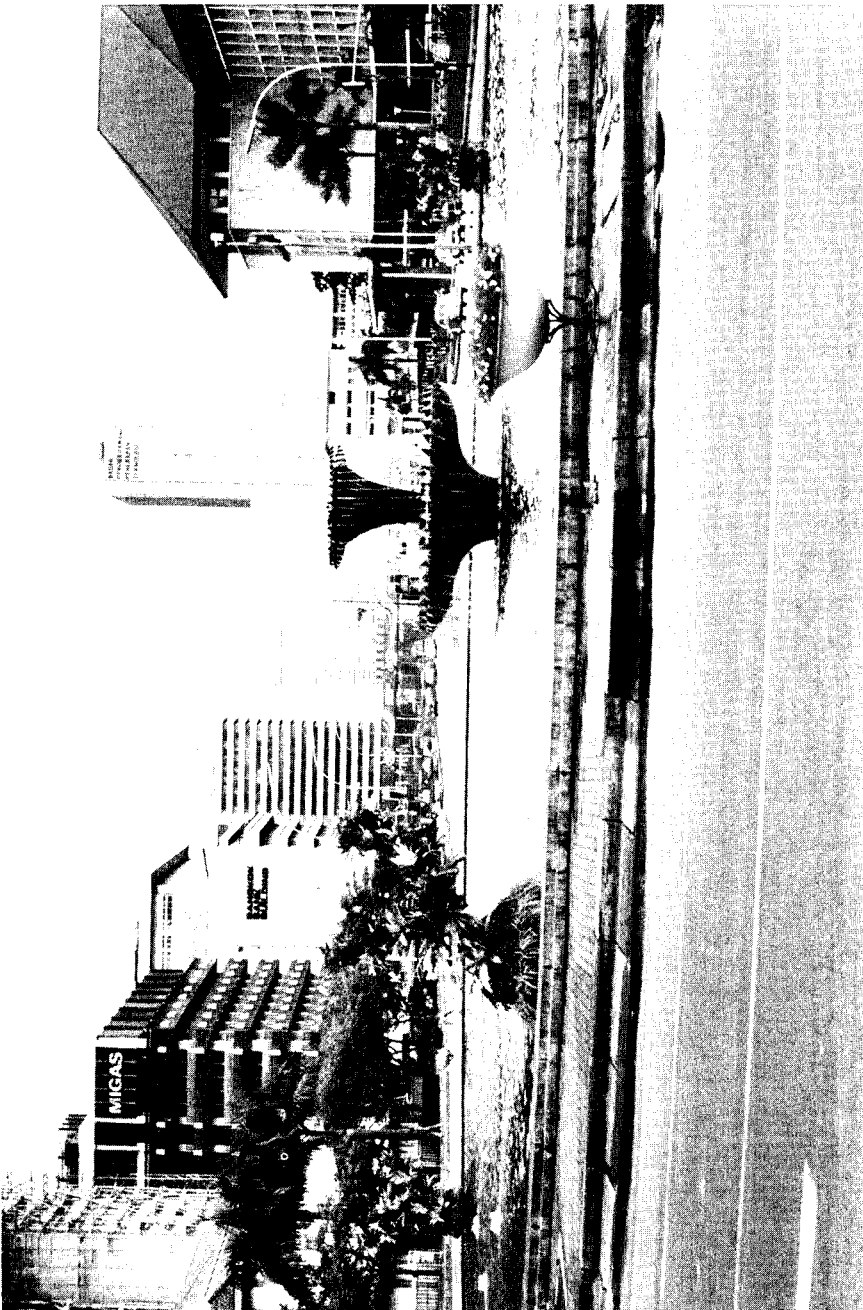
Improving the Image of Business

When asked, successful young business executives in Indonesia are likely to state that their profession has yet to gain the popular respect they seek. There is still a lingering public suspicion that profit through trade involves, as Javanese villagers say, a pact with the devil. Many of the nation's wealthiest businessmen have clearly been made so by special relationships with the power structure, an increasingly distasteful practice for the younger generation. Government positions continue to confer higher social status and remain the preferred goal of most university students.

There are, nevertheless, clear signs of change. The success stories of "unfacilitated" businessmen, including most of those mentioned above, have been carried to the public by the media, including the glossy, highly professional magazine *Eksekutif*, which rivals *Fortune* in coverage and quality. Many of the military heroes of the anti-Sukarno movement have in retirement become respected businessmen. Several of the popular student and university graduate leaders of the "66 Generation," including some who earlier believed Indonesian commerce to be hopelessly entangled with corruption, have also gravitated to business or professions closely associated with it. A noted Indonesian social scientist has pointed out that most of the children of current government and military leaders have opted for a private business career over their fathers' professions.¹⁵

As Indonesian critics are themselves quick to note, some of these young businessmen are simply "cashing in" on their families' position. Others, however, see this career field as the future source of national leadership. In the latter category, perhaps, are the first six presidents of Indonesia's Young Businessmen's Association, five of whom are children of government civil servants.

The business profession has also gained new status in the academic community. The University of Indonesia and sister institutions have given business courses added prominence in their



Modern Downtown Jakarta

curricula. Three new private business schools with the most modern facilities now offer Masters of Business Administration courses modeled on those of the top foreign institutions. The faculty of one of these, the Institute for Management Development (IPPM), included in a recent year three visiting professors from the Harvard Business School and one from France's INSEAD, in addition to six Indonesian professors with doctorates from leading foreign (mostly American) universities.

An Indonesian professor at IPPM noted that several students arrive at the school with hopes of receiving tips and contacts leading to government "facilities." Most leave, he believes, with different concepts of a businessman's role. They return to an environment, however, enormously influenced by government dicta. Recent grand jury investigations in the United States indicate that industrialized societies with strong institutional separation between government and business experience more than occasional cases of companies attaining unfair advantage through illegal arrangements with high officials of local and central government. The dominant role of government in the Indonesian economy greatly increases, of course, the scope for such practices. But popular tolerance of illegally attained "facilities" is waning at an accelerating rate.

The Indonesian private business community has not yet become the separate source of national power the Javanese entrepreneur Soedarmo envisaged when he walked down Wall Street in his youth. It has, however, clearly shown this potential. Private businessmen have markedly improved their skills, self-confidence, and public image over the past two decades. They should be capable of assuming the increased responsibilities which would result from greater governmental reliance on market forces.

ENDNOTES

1. Remarks by Walter E. Hoadley to Second United States-Indonesian Bilateral Conference in Washington, 21 January 1987.
2. Goldmark and Rosengard, "Credit to Indonesian Entrepreneurs," pp. 2-3.

3. McLeod, *Finance and Entrepreneurship*, p. 110.
4. McLeod, *Finance and Entrepreneurship*.
5. Alexander, "Information and Price Setting."
6. This paragraph draws on a March 1986 study by Thomas Niblock, Jr., then an officer at the American Embassy in Jakarta.
7. Rafendi Jamin, "Ki Sura, Pedagang Kreatif," in *Beca, Beca Coba Saya Bawa*, Galang, Jakarta, 1984.
8. Interview published in February 1981 issue of *Eksekutif*.
9. McLeod, *Finance and Entrepreneurship*, p. 84.
10. Stoler, "Class Structure and Female Autonomy," pp. 83, 85. In the village she studied, Stoler found forty percent of the women and only eight percent of the men regularly engaged in trade.
11. David Clarence McClelland, *The Achieving Society*, Princeton: D. Van Nostrand Company Inc., 1961.
12. See Anwar Natsir, "Hi-tech, low yield," in *Far East Economic Review*, 11 June 1987, pp. 110-113.
13. See in particular Leon Mears and Sidik Moeljono, "Food Policy," in Boothe and McCawley, eds., *The Indonesian Economy*, pp. 23-61.
14. Winarto, "Tak Ada Lagi Perwira ABRI Berdagang," p. 21.
15. Onghokham, "Korupsi dan Pengawasan," p. 11.



Highlands Warrior in Traditional Attire with
Modern Accessories

8: FROM BIG-MAN TO BUSINESSMAN IN MELANESIA

While trade was rarely compatible with high social status in traditional Indonesia, *bisnis*, as it is known in Pidgin, became virtually synonymous with leadership in many Melanesian clans. Melanesians rapidly recognized that it offered a much faster means of accumulating the wealth required for big-man status than growing pigs and sweet potatoes. And the desire to become big-men endowed Melanesians with as strong an entrepreneurial drive and as high a propensity to save as can probably be found in a tropical society. Clansmen proved to be an excellent source of additional capital. While entrepreneurs arose in surprisingly large numbers, capable Melanesian managers have been notably lacking. To understand this paradox, we must examine the leadership traditions of Melanesian clans.

Clans as Corporations

Economic anthropologists have traced for us the process by which two widely separated Papua New Guinea groups entered the cash economy. The Tolais of the Gazelle Peninsula on the eastern arm of New Britain island, studied by T. Scarlett Epstein and Richard F. Salisbury, were among the first Melanesians to come into sustained contact with Western societies and are widely regarded today to be among the best educated and occupationally advanced Papua New Guineans. The Goroka peoples of the eastern highlands of New Guinea island, the subjects of studies by Ben R. Finney, were among the last major groups in the world to meet industrialized societies and have, until recently, lagged in education and skills. The languages of these two peoples are as different as English and Arabic, but their reactions to business opportunities were strikingly similar.

Epstein divided Tolai economic adaptation into four phases. Shortly after the Germans established plantations on the peninsula in 1890, the Tolai traded coconuts and labor for Western goods, tools, and technology. By the time the Australian military occupied the island in 1914, the Tolais had entered a phase of

agricultural expansion to supply cash crops, principally copra and cocoa, for export and sale to the colonialists. They then used this surplus to experiment with agricultural processing, such as copra driers, transport, and retail trade, incurring a high rate of failures. In the final phase, the Tolai expanded their transport and retail trade with much fewer failures but continued to rely principally on agriculture for their livelihood.¹ The Goroka people, who saw their first Westerners in the early 1930s, went through virtually the same process, although they were only introduced to coffee, their principal cash crop, in the 1950s. Both groups became major cash crop producers only in the 1970s, when subsidized loans regarded today to be among the best educated and occupationally advanced Papua New Guineans. The Goroka peoples of the eastern Highlands of New Guinea island, the subjects of studies by Ben R. Finney, were among the last major groups in the world to meet industrialized societies and have, until recently, lagged in education and skills. The languages of these two peoples are as different as English and Arabic, but their reactions to business opportunities were strikingly similar.

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Both the Tolai and the Goroka peoples surprised colonial observers by spending their agricultural surpluses more on capital

than consumer goods. They were far more interested, for example, in buying trucks than cars and preferred investing in retail stores to improving their homes. Clan ties provided, of course, the explanation. Aspiring big-men could obtain an additional source of income, compete with other clan leaders, and satisfy their distributive responsibilities by furnishing the largest contribution toward the joint purchase of a truck, for example. While under the control of the principal contributors, the truck was in principle the property and pride of the clan and occasionally at members' disposal for transportation or simply exhibition before rival clans. Many such trucks, Finney points out, bore the painted clan name preceded by the words, "*papa bilong bisniska*" (owner of business car). The initiative, organizing skill, and persuasive power which big-men used to mount a prestigious pig exchange ceremony served equally well in arranging what Finney termed "conspicuous investments."

Anthropologist Andrew Strathern, who resided many years among New Guinea highlanders, describes in his 1977 introduction to the autobiography of Western Highlands Big Man Ongka the motivations behind these investments:

Big-men nowadays like to move with the times, in the sense that they reach out to obtain money and what money can buy as much as any others. Indeed, more so, in that they struggle to achieve whatever is aimed at by ambitious men. Cars, trucks, and large lorries have been a favorite target for rivalry and competition for over a decade in Hagen now. Ongka . . . is a compulsive saver, and despises the consumption mentality of those who buy luxurious foods and drink with their money. Essentially, he expresses an ethic which is both akin to the historical "Puritan Ethic" lying behind the capitalist entrepreneur in European society and is also a direct continuation of the separate "big-man" ideals of his own society.²

Assuring that such investments produced both the returns in group solidarity and prestige which clan traditions demanded and the economic returns required for an enterprise's continued viability has proved to be less than a simple task. Finney, Epstein, and Salisbury note that vehicles at first commonly fell into disrepair, often because contributors could not agree on sharing maintenance costs. This problem was attenuated when higher

income permitted lower limits on the number of contributors per vehicle purchased.

Trade stores fared worse as clan assets because clansmen left their accounts unpaid. The mortality rate for retail ventures dropped somewhat over time, but it has remained comparatively high throughout the country for those trade stores catering to the owners' clansmen. Continuing enthusiasm for investment in trade stores, which in 1967 numbered 447, or one for every 130 persons in Goroka and virtually one for every hamlet in the Tolai region, can be attributed to the high prestige they bestow on the owner whether or not they fail in economic terms. Recent experiences by American Peace Corps volunteers working with small businesses indicates that a number of trade stores throughout Papua New Guinea continue to operate more as prestige-earning distribution centers rather than as profit-making business ventures.³

A 1984 business survey of Solomon Islands firms by the East-West Center's Pacific Islands Development Project suggests that similar forces are at work in that small country. Many firms, the survey indicated, had relied on "informal financing" by family, friends, and clansmen. In return, they invariably experienced pressures for uneconomical favors. The more successful entrepreneurs had, however, devised methods of turning such requests aside.⁴

Salisbury found that the traditional Tolai distinction between clan possessions which could not be distributed such as land ownership and ceremonial rites on the one hand and distributable consumables on the other was extended to and helped protect corporate capital assets. In fact, Tolai practice was to amortize depreciating assets as soon as possible (although there were delays in recognizing that vehicles fell in this category) and to withhold distribution of earnings not in the form of food or services. As a result, rapid capital accumulation often took place. Well-intentioned Australian efforts to encourage payment of dividends from non-consumable earnings risked destroying clansmen's confidence in their business, Salisbury noted.⁵

Melanesian traditions operating through the clan system have frequently proved to be remarkably effective in mobilizing tiny individual savings and channeling them into productive enterprises. A Goroka enterprise, now known as the Gouna Development

Corporation, illustrates the capital accumulation capabilities of the clan system. The firm was formed when several big-men combined their earnings from coffee and joined in soliciting additional contributions from their clansmen to purchase expatriate plantations under the government loan program. Over \$100,000 was eventually collected from some two thousand individuals, sufficient to purchase and operate two plantations. The firm subsequently diversified by acquiring a wide range of enterprise including the country's most modern egg production facility, a car and truck agency, a sporting goods shop, an insurance company, and real estate. Its holdings today approach \$10 million in net value.⁶ The Gouna Development Corporation has, of course, experienced pressures from its shareholders for larger distributions, which it has met by taking shareholders on tours of facilities to show how their investment has grown.

By mobilizing scarce capital and introducing villagers to basic economic concepts, clan businesses have played a key role in the development of Melanesia's private sector. Until there is a means of marketing individual shares, which would likely require abandoning the concept of clan ownership, clan shareholders are likely, however, to place uneconomic demands on management. Choosing the management of a large clan or multi-clan organization has, in many cases, proved a stumbling block because of the intense competition among the big-men involved. As individual entrepreneurs gain access to other sources of capital and as the society becomes more mobile, reliance on the clan system has, therefore, decreased.

Returning almost two decades later to the Goroka business scene he first surveyed in 1967, Finney noted that the bonds between clans and their entrepreneurs had weakened somewhat. While many of the wealthy big-men of the sixties still chose the dress (T-shirts and shorts) and the dwelling (one-room block houses) that left them indistinguishable from their fellow clansmen, the new generation of successful entrepreneurs wore business clothes, carried briefcases, and lived in modern, well equipped homes. They had also widened their investment portfolios and increased their personal share in and control over the ventures involving their clan.



Papua New Guinea Highlands Market

Melanesians as Entrepreneurs

Finney provides fascinating accounts of the rise of fifteen Goroka entrepreneurs in the business world. The careers of several of these match Horatio Alger's wildest fantasies.⁷ A brief summary of one, that of Akapite Wamiri, will perhaps suffice to illustrate the entrepreneurial forces at work in Goroka.

When his family was unable to pay the fees for a high school education, Akapite Wamiri walked for nine days down 200 miles of mountain road to seek employment at the coastal port of Lae. There he performed odd jobs for an expatriate for his keep and approximately two dollars a month, caddying at the golf course in his free time. He returned home in about a year with twenty-five dollars in savings, which allowed him to pay his school fees and bank about fifteen dollars. After a few years teaching, supplemented with carpentry work on weekends and vacations, Akapite had sufficient savings to purchase a used Land Rover. He resigned his teaching position to carry paying passengers around Goroka. Gradually his transport fleet was expanded to include two buses and an eight-ton truck. In 1974, at the age of 35, he had saved some \$42,000. This sum, augmented by \$8,000 from clansmen and a \$60,000 bank loan, was used to purchase an Australian coffee plantation on land originally belonging to his clan. Shortly thereafter, coffee prices skyrocketed because of a severe frost in Brazil, allowing him to pay off his mortgage in one year. High coffee prices in subsequent years helped him build a coffee factory with the latest German equipment and purchase a hotel in Lae and a cattle ranch in the neighboring lowlands. Subsequent acquisitions included a sugar plantation, two more expatriate plantations, rental apartments in Lae, land in Australia, and his bank's building and a shopping center in Goroka. Akapite's clan has approximately a twenty-five percent share in these holdings. The remainder, of course, makes Akapite a millionaire in anybody's currency.

Finney attributes the remarkable success of Goroka businessmen both to their traditional values and institutions and to favorable "preconditions" in the form of fertile soil, a high value crop, and colonial contacts which transferred new technology without disrupting their communal integrity. The Eastern Highlands province in which Goroka is situated and East New Britain province where the Tolais live are, indeed, among Papua New

Guinea's most fertile provinces and contain some of its most dynamic people. They are far from unique, however, in spawning entrepreneurs. Mount Hagen of Western Highlands province now rivals Goroka in the number of millionaires, also principally in coffee and trucking. The Southern Highlands, which was the last province to be opened to Western influences (in the 1950s) is home to one of the nation's largest earth moving firms. Its founder, Anthony Temu, is a traditional big-man with five wives, some of whom have salaried positions in the modern sector. Even the provinces poorest in resources have examples of outstanding entrepreneurs, such as East Sepik's Sir Pita Lus, who began as a plantation worker and today heads a clan conglomerate with extensive holdings.

Successful businessmen are not confined to their clan territory, of course. In fact, retail traders may be required to leave home to obtain outstanding results. Manus, in the isolated Admiralty Islands at the nation's northern ocean boundary, has furnished a surprisingly large number of Papua New Guinea's business and government leaders from its tiny population of 20,000. Among them is Fred Daniels, who has made a fortune selling used clothing, principally in the New Guinea Highlands. A Goroka Highlander, on the other hand, is among the most successful retailers in the lowland cities of Port Moresby and Lae. Pepe Gotaha was sent to study accounting by his older brother in the hopes he would return to manage the clan coffee firm the brother had founded. Pepe decided instead to make it on his own, beginning as a trainee in a trade store and becoming in time proprietor of several retail outlets, rental properties, and, in partnership with others, a restaurant. He has purposely located his investments far from his clan's territory. The well based fear that dividends demanded by clan stockholders in the form of unpaid accounts would decapitalize his retail business has apparently led him to forgo the investors and the social rewards accruing to resident big-men.

Melanesians as Managers

Few Melanesian entrepreneurs possess Pepe Gotaha's managerial capabilities. This is principally because very few possess anywhere near the technical knowledge he gained through a university degree in accounting. But cultural factors may also be

involved. The highly competitive and egalitarian nature of their society seems to make Melanesians even more uncomfortable than most entrepreneurs in a tightly disciplined hierarchical structure. Such an organization may be required for enterprises with a large number of poorly educated employees. In any event, most successful Melanesian entrepreneurs have employed expatriate managers when their firms have grown well beyond family size. Many of those who have not done so have seen their companies decline.

Among the many tales of Australian first encounters with New Guinea Highlanders is that of a new district officer arriving at his first post only to discover an angry band of warriors in full combat paint and feathers outside his office. Their demand that an Australian officer be turned over to them caused the officer some qualms until he learned that they were seeking not a victim, but a leader. They believed themselves unfairly disadvantaged by the presence of a district officer in a neighboring tribe's territory. The welcome which some years after first contact was almost universally extended to Australian government representatives in the Papua New Guinea highlands seems to have sprung from a desire to obtain, first, new technology but, also, the inter-clan discipline and cooperation which Melanesian big-men could not provide.

There are fading remnants of the phenomenon today when Melanesian proprietors hire expatriate business managers not only to maintain their accounts and oversee their foreign interests but to shield them from clan pressures and handle personnel problems without exciting Melanesians' strong competitive instincts. Indonesian officials at times seem to have used expatriate technical advisers in a similar manner but for a very different purpose—to present dissenting viewpoints to superiors, something which Javanese etiquette prohibited subordinates from expressing directly. Such practices would appear to be legitimate interim arrangements for bridging cultural as well as technological gaps. Expatriates should, of course, be aware of the functions actually expected of them, and, most important, the host society should develop indigenous resources to replace highly paid expatriates. The latter process is far advanced in Indonesia and appears to be underway in Papua New Guinea.

As previously noted, Papua New Guineans in 1984 held only fifty percent of the supervisory, thirty percent of the middle

management, and ten percent of the senior management positions in the private sector.⁸ The percentages of Solomon Islanders and Vanuatuans in such positions are probably even lower. Since foreign enterprises provide the bulk of private sector employment and since colonial policy until its final years seldom promoted the hiring of locals, comparatively few of those Melanesians now in managerial positions rose through the ranks of their current organization. Many appear to have been recruited from government service.

Melanesian women in the private sector have thus far rarely risen above the clerical level. This seems due entirely to the family roles and scant educational opportunities relegated to them by formerly warrior-oriented societies. The Melanesian woman's traditional role as the family's principal food producer and occasionally as the seller of excess production has accustomed her, on the other hand, to long hours of hard work under considerable stress. For this reason, many employers have preferred female employees over males for their industry and reliability. Women remaining in the home have, with the help of governmental and private agencies, organized cooperative money-making ventures with considerable success. One such cooperative in the Highlands organized by a provincial administrator's wife ran a recreation center featuring pool tables, snacks, and beer, and thus providing women revenue from their husbands' frequent evenings out. Women receiving advanced education have generally chosen careers in the public service, and several have risen to the top professional levels of all three governments.

Political considerations required, of course, that management positions in government be "localized" at a much faster rate than those in commerce. The proportion of expatriates in the public service decreased from fourteen to six percent in the first ten years of independence. This may be the principal reason that university graduates of both sexes have shown a clear preference for political or civil service careers. A number of capable government managers have, however, contributed significantly to the development of commerce. Makere Morauta, whom we earlier met as secretary of finance and a member of the "Gang of Four," has since, for example, served as the highly respected head of the state-owned Papua New Guinea Commercial Bank, which handles fifty percent of the nation's commercial banking. The government's excellent record

in managing its monetary policy owes much to Sir Henry ToRobert, who has served as governor of the Bank of Papua New Guinea since 1973. An economics graduate from Sydney University, Sir Henry was the first Papua New Guinean to rise to senior rank in the Australian Reserve Bank.

The public sector has, fortunately, shared its top executives with the private sector. Several talented college graduates who attained the highest possible civil service rank at an early age subsequently tried their hand at business. Their government experience in administering large numbers of employees from various tribal groups undoubtedly helped them evade the cultural constraints on management which handicap others. Among the more successful examples of bureaucrat turned businessman are Charles Lepani, another member of the "Gang of Four" who became a business consultant, the head of an investments holding company, and chairman of the board of a large retail chain before assuming his current position as director of the East-West Center's Pacific Island Development Project. William Agar Lawrence, who held the top career position in two ministries and served as an executive representative at the Asian Development Bank, left government service to become a highly successful real estate developer, partner in a trucking firm, and director of several of the nation's largest firms.

Retiring or defeated politicians almost inevitably enter private business. While a few simply lend their name to a large firm, many become active businessmen, such as Solomon Islands finance minister turned entrepreneur Bartholomew Ulufa'alu. Ulufa'alu, after graduating from the University of Papua New Guinea, became a labor leader and member of parliament noted for his leftist sentiments and contacts with the Soviet Union. Like many Melanesian politicians labeled "leftist," however, Ulufa'alu proved to be a pragmatic, responsible, and respected leader when named minister of finance. Defeated for reelection, he took up retail trade and became president of the Chamber of Commerce. Another politician with a radical reputation as a youth, former Papua New Guinea foreign minister Sir Maori Kiki, now heads a large insurance firm and manages extensive interests in real estate and pig raising.

The few women who have attained prominence in politics also appear adept at business. Josephine Abaijah, a fiery orator who

created and later represented in parliament the Papua separatist movement, now owns and manages an office supply company. Nahau Rooney, a strong willed minister in two different governments, is a hotel proprietor.

In recent years, politicians turned businessmen have increasingly been replaced in parliament by successful entrepreneurs. Such interchange can facilitate untoward governmental intervention in the economy, as we have seen in chapter 6. This risk appears more than balanced, however, by the benefits gained by both the public and private sectors from sharing Melanesia's currently limited managerial resources.

The ideal means of expanding Melanesia's managerial resources is, of course, to transfer modern business skills and methods to the large body of aspiring small-scale entrepreneurs. The dispersal of the population across thousands of miles of ocean and difficult terrain makes this a difficult task, but some progress has been registered. Papua New Guinea provincial governments and the Solomon Islands central government maintain business development offices to assist small businessmen with accounting and other services. Attracting educated, experienced, and energetic personnel to these mostly rural positions has been difficult, of course, but in the absence of private accountants they seem to be providing useful services. The Pacific Island Development Project's survey of Solomon Islands businesses found that most successful entrepreneurs used business advisers, for whom the leading source was the Business Development Bureau. Several private voluntary organizations, a foreign accounting firm (Coopers Lybrand), and foreign aid agencies (including the United States Agency for International Development and Peace Corps) are also active in this field.

The Papua New Guinea Agricultural Bank has devised an effective means of combining investments in human and physical capital. From its experience it found that enterprises with turnovers too small to justify contracting accountants have not profited from its loan programs. It, therefore, finances trade stores of a sufficient size to afford accounting services and trains managers to run them. After an extensive trial period, those managers turning an adequate profit are given title to the store. Two hundred fifty of these former trainees now own their stores, and two,

including Pepe Gotaha mentioned above, have become so successful in a number of enterprises that they now sit on the bank's board of directors.

The South Pacific Appropriate Technology Foundation, which receives support from the Papua New Guinea government, foreign aid agencies, and private organizations, has undertaken a number of programs which appear exceptionally well suited to the small, dispersed nature of most Melanesian businesses. In conjunction with Papua New Guinea's Institute of Technology, it has sponsored the design of simple machines suitable for isolated communities and the formation of small private firms to manufacture and distribute them. Managerial assistance is also provided. A foundry, a portable sawmill manufacturing company, and a microhydroelectric power generator firm headed by the equipment's designer are examples of the enterprises "spun off" by the foundation.

Efforts to create technology and firms suited to village economies point to the constraints geography places on the exploitation of Melanesia's considerable entrepreneurial resources. Internal markets are too small to justify even medium-sized industries except in the more populated areas of Papua New Guinea. Distances to foreign markets would seem to make manufacturing for export difficult even if wage scales, worker productivity, and land costs were brought into line with those of neighboring countries.

Mineral exploitation is likely to remain Papua New Guinea's strongest link to the world market and could well become that for Solomon Islands and Vanuatu. The location and nature of remaining gold and potential petroleum deposits require the type of technology and capital which only the world's largest mining companies can provide. While these enclave projects provide some local opportunities for employment, support services, and ancillary industries, the primary benefit will be foreign exchange flowing directly into the central government treasury. Tourism provides substantial opportunities, which only Vanuatu has thus far systematically exploited, but distances from foreign population centers place limits on the growth of this industry. Agro-industry, which spawned the first entrepreneurial efforts of Melanesians, is, therefore, likely to remain the optimum focus of their business activities.

The current Papua New Guinea government has wisely centered its attention on agriculture, where the returns in employment and in entrepreneurial development are likely to be largest. The volatility of tropical agricultural commodities in international markets creates, of course, frustrations. Recent economic studies indicate, however, that instabilities in international commodity markets have few if any harmful effects on developing countries' progress toward their economic goals.⁹ Melanesian governments have developed viable stabilization programs for several of their agricultural exports, and they have proved to be highly competitive in such products as coffee, cocoa, and palm oil. Their advantage may well grow as Melanesians are given increasing opportunity to apply their unusual competitive instincts to the international market.

ENDNOTES

1. T. S. Epstein, *Capitalism, Primitive and Modern*, pp. xxi-xxiii, p. 10.
2. Strathern, *Onka*, p. xxi.
3. See also McSwain, *The Past & Future People*, p. 113 and Woolford, *Papua New Guinea*, p. 215.
4. Rizer, *Solomon Islands Business*, pp. 3, 17, 41-44.
5. Salisbury, *Vunamami*, p. 268, p. 263.
6. Finney, "Business Development," pp. 40-41.
7. See Finney, *Big-Men and Business* for the basic survey and "Business Development in the Highlands of Papua New Guinea" for the update.
8. C. L. MacKay, "Private Sector Localization & Economic Development in Papua New Guinea," (Discussion Paper No. 12, Institute of National Affairs, Port Moresby, 1984.)
9. See in particular Behrman, "Commodity Price Instability," pp. 569-570. Behrman notes that popular perceptions to the contrary may be due, in part, to the vulnerability of small groups, including political leaders, to economic downswings caused by falling commodity prices.

9: THE THIRD WORLD AND THE MARKET SYSTEM: A PAYING PARTNERSHIP?

Indonesian scholars in their journals and Melanesian politicians in their parliaments have frequently and critically examined their nations' performance in the world market system and the benefits received from these efforts. As is often the case with scholars and politicians, they have levied more criticism than praise on both their countries' and the market system's performance without reaching a clear consensus. These discussions have, nevertheless, been healthy and constructive. It is important that the costs and benefits of Third World participation in the market system be frequently reviewed even if findings are inconclusive. Developing and industrialized states alike have invested heavily in this joint venture. Timely feedback can lead to improvements in the management of individual economies, in the operations of the world system as a whole, and consequently in returns on these investments.

Recent debates in Indonesia's foremost journal on economic and political affairs focused on whether Indonesian policies could bring industrialization to the "take-off stage" in the time envisaged by the government and whether the society's middle class had the size and attributes to serve as a "driving force for social change." While less than satisfied with both government policies and public attitudes, some of the debate participants harbored doubts that these particular questions really applied to Indonesia. Comparing Indonesian and Melanesian experience with models borrowed from industrialized or even newly industrializing states can, indeed, yield misleading conclusions. Theories of economic development based on Western experience seem, in fact, to have succumbed to the modernization process at a much faster rate than traditional cultures.

In summing up the experiences of Indonesia and Melanesia, there is little to be gained by assigning them to a "stage" on some theoretical flow chart of development. Instead, we will review the social costs of their commitment to the market and the benefits in terms of both security and economic growth. The benefits other



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members of the market system receive from Indonesian and Melanesian participation will then be estimated. Finally, we will consider steps by which Indonesia, Melanesia, and industrialized nations might strengthen the system and enhance its services to all participants.

The Costs of Change

An obvious factor making Western experience in industrialization a faulty guide to the course of developing countries today is the greatly accelerated pace of development. The title of a Melanesian leader's autobiography, *Ten Thousand Years in a Lifetime*, is a valid estimate of the rate of change in his society compared to that of Europe at a similar stage of development. This is, mildly stated, a dizzying pace.

Even for those countries not faced with a comparable challenge of catching up, modernization is, in Nobel Laureate Theodore W. Shultz's words, a succession of disequilibria.¹ Both the Melanesian and Indonesian peoples came poorly equipped to deal with disequilibria. Before the arrival of Westerners, Melanesians had, to all evidence, experienced very little change in their technology, social organization, and means of subsistence for over 20,000 years. The Javanese, with their cyclical concept of history and emphasis on social order, viewed disequilibrium as an unnatural and highly unpleasant state.

The stress rapid change places on individuals and the social structure has consequently reached enormous proportions in Melanesia and Indonesia. The effects have occasionally been debilitating. The range of escapist reactions witnessed in other societies—nativistic withdrawal into traditional customs, millenarian movements, and radical, unreasoned restructuring of traditional institutions—were all seen in various Melanesian cargo cults and can be detected curiously combined in the doctrine of Indonesia's Guided Democracy era. Some of these tendencies persist today, openly in isolated cults of little importance and disguised and diluted in the teachings of a few, potentially important organizations.

Many believe the recent resurgence of Islam in Indonesia springs from a felt need to counter the disorientation of modernization. The Indonesian "back to the mosque movement," nevertheless, has few of the radical aspects associated with similar

movements in the Middle East. In some cases, renewed interest in Islamic institutions such as rural schools has actually focused on giving them a modernizing role. Increased interest in Islam and in mystical sects on the part of nominal Javanese Moslems would, therefore, seem to be little different than the concurrent growth of church attendance in Melanesia and in the United States.² In all these cases, religious affiliation may help replace the moral guideposts and the social support lost when individuals are drawn from village or small town life into a more impersonal and uncertain urban environment.

Melanesian abuse of alcohol, a serious problem in Papua New Guinea, has also been traced to the stress of rapid change. There are clearly other causes as well, however, including beer's incorporation in exchange traditions and in political campaigns. Interestingly, the competitive instincts of Melanesians are serving as a check on alcohol abuse. The business successes of Seventh Day Adventist abstainers have reportedly gained the church many converts from big-men/businessmen anxious to sharpen their efficiency by escaping pressures to serve and drink beer.

As some Melanesian businessmen's reaction to alcohol abuse suggests, the stress of modernization has uncovered strengths as well as weaknesses in the two societies. It has, in particular, brought innovators and managers to the forefront. Among the first of these were the outer-islanders who, living on the margins of their cultures, were forced to deal with more modernized societies and with the stress this entails. In Indonesia, these were inhabitants of Sumatra, Kalimantan, and Sulawesi who, followed by the Javanese, became the first traders of the North Java kingdoms and the first indigenous businessmen of independent Indonesia. In Papua New Guinea, similar pioneers came from New Britain and Manus islands. These entrepreneurs, particularly in Indonesia, often remained apart from other parts of the society, however. As with the Chinese and other foreign ethnic groups, this isolation perhaps served to protect values enhancing market competitiveness from conflicting norms of the mainstream population. It also reinforced popular distrust of trade and traders, however.

The remarkable number of successful entrepreneurs in the Papua New Guinea Highlands, one of the last areas on earth to be introduced to market principles, does not fit this pattern and requires a separate explanation. As noted in chapter 7, their

entrepreneurial success has been traced to a cultural propensity to save and to the opportunities coffee cultivation offered for rapid accumulation of capital. The physical energy which comes from a cool and malaria-free environment may also be a factor. Highlanders themselves, however, point first to their work ethic, a requirement for survival in a thickly populated area ridden by tribal warfare. Although unaccustomed to economic and technological change, Highlanders were well acquainted with stress.

The stress of change, the fear of losing cultural identity, the isolation of traders, and shortages in qualified manpower were all eased when traditional leaders assumed modern roles. Javanese court officials were transformed into bureaucrats under the Dutch, and some of these metamorphosed into economic planners and financial managers in the New Order. Balinese princes and their followers formed commercial firms. Indonesian military officers served as factory managers and chief executives of state companies. Melanesian clans acted as corporations and cooperatives, and big-men became entrepreneurs.

In many cases, traditions conflicting with market efficiency continued under this modern guise. Bureaucrats used their positions to exact tribute or "commissions." Businessmen relied more on government facilities than on entrepreneurship. Military managers of state enterprises spent more than they earned. Clan members demanded frequent distributions on their firms' capital. Retail stores of big-men were operated for prestige instead of profit. Over the long term, however, the new roles gradually effaced dysfunctional traditions. And a new generation of formally trained businessmen arose as the profession gained social status.

The trend toward greater market efficiency seems to have been slowed during periods of prosperity and accelerated when national economies were under stress. Indonesia oil and Melanesian gold and copper have in this respect been decidedly mixed blessings. They have provided much of the physical capital required for economic stability and growth. When their selling prices have been high, however, they have encouraged delays in adapting to the external market environment.

It is human capital formed through education that has played the determining role in Indonesian and Melanesian economic

successes. The best paying investments have been in neither oil nor gold but in the education of: (a) the "Berkeley Mafia," who inventively adapted market principles to the Indonesian environment; (b) their erstwhile students at the Army Command and Staff College, including General Suharto, who implemented and gained popular support for a radical shift in economic policies; (c) students at the Administrative College in Papua New Guinea, including former Prime Minister Somare who, along with Prime Minister Sir Peter Kenilorea of Solomon Islands, made pragmatic problem-solving a criterion for Melanesian national leadership; (d) Papua New Guinea macro-economic policy-makers Sir Julius Chan and the "Gang of Four," who helped build confidence in market principles and in the concept of a national economy; and (e) the ranks of educated public servants and managers of private enterprise who have backed this leadership. While education does not make an entrepreneur, the cases of Papua New Guinea Highlander Pepe Gotaha and Indonesian textile millionaire Husein Aminuddin show that it carries them much faster and farther down the track.

Governments have perforce played key roles in introducing market principles. The methods and organizational structures used by Indonesian and Melanesian government leaders to implement their economic policies have, of course, reflected their societies' very different cultural attitudes toward authority. The effect of these attitudes on development has prompted some trenchant self-criticism. An Indonesian social scientist recently complained that her countrymen do nothing without orders, while a Papua New Guinea member of parliament claimed his compatriots' refusal to follow anyone's orders had resulted in chaos. A more generous view would be that Indonesian discipline and respect for authority favors development "from the top down," while Melanesian individualism calls for more of a "from the bottom up" approach. At the same time, Indonesian planners have come to recognize the need to decentralize decision making, instill more competitive spirit, and stimulate local initiative, while Melanesian leaders have recently advocated greater coordination and centralization of policymaking.

Although the Indonesian and Melanesian paths toward market competitiveness seem in key respects to point in opposite directions, some of the obstacles in their way are identical. The

traditions of both place obligations on individuals which, when ignored, constitute a sin against one's immediate social group and, when fulfilled, constitute a violation of market principles and sometimes a crime against the state. Much of the corruption their governments experience comes from this source.

Protectionist measures mask narrow group interests throughout the world and have been extensively so used in Indonesia and Papua New Guinea. Judging from the less than impressive record of industrialized countries, the decline of such practices requires extensive public awareness of their consequences for the market and the nation. There are encouraging signs that this process is underway. The Indonesian and Papua New Guinean public media in their separate, distinctive ways are establishing standards of conduct for government and business leaders. The responses of both governments to economic difficulties have increasingly shifted from shielding to opening their economies to the external environment. While very costly protective cum monopolist barriers remain, they are becoming increasingly serious political liabilities in societies accustomed to movement towards more efficient and equitable economies.

Economic Benefits from the Market System

As indicated in the opening chapter, Indonesians and Melanesians came to the world market to sell, to buy, to learn, and to find security in numbers. The journey has not been without difficulties and occasional pain. They are, therefore, attentive to how well the market accommodates their goals.

Indonesia's economic growth has been spectacular. Melanesia's has been modest, but principally because these younger nations probably correctly placed first emphasis on stability and equity and are just now implementing growth policies. Indonesia and Papua New Guinea have relied primarily on foreign private investment for the development of their mineral resources from which they have received generally satisfying, if fluctuating, financial returns. For geographical as well as economic reasons, mineral exploitation has created enclave industries, however, which make few direct contributions to employment and human resource development. Other foreign and private investments have also tended to be capital intensive, but domestic policies in conflict with market principles, such as protectionism in

Indonesia and wage policies in Papua New Guinea, are largely to blame.

Concern that the premium market policies place on accumulating capital would cause destabilizing disparities in income in Indonesia and Melanesia has thus far proved unfounded. Most surveys in Indonesia have shown income inequalities, as measured by the Gini ratio³, to be in the middle range of those for developing countries. While the rich have often grown richer, the poor have also benefited. The gap between rich and poor has probably grown most when protectionist policies have interfered with market forces.

In Melanesia, greater access to markets has undoubtedly moved the as yet unmeasured Melanesian Gini ratio upward toward income disparity from what may have been the world's most equitable level. But the starting point was shared poverty, and the alternative was probably no development at all. While Melanesia now has its first millionaires and scholars, they seldom regard themselves and are almost never regarded by their compatriots to be moneyed and educated elites, as some Western observers feared.

Economic assistance from other members of the market system and from international agencies has helped fill many of the needs the market itself has not met, including educational, health, and other services contributing to the development of human resources and economic equity. It also provided crucial initial impetus to the local economies. The remarkable success of the stabilization and rehabilitation program of Indonesia's New Order, for example, was due not only to the resolve and wisdom of its leadership but also to the financial assistance and technical advice of the World Bank and bilateral donors assembled in the Inter-Governmental Group for Indonesia (IGGI). Similarly, Australia's massive aid program gave a crucial boost to the Somare government's successful efforts to build confidence in Papua New Guinea's economic future. By providing financial and psychological support at appropriate moments, IGGI and Australian assistance have helped demonstrate that acceptance of market discipline brings the benefits of membership in a supportive community.

The crucial gauge of the market system's value to Indonesia, Melanesia, and other developing countries is, of course, its capacity

to absorb their exports. Indonesia's and Papua New Guinea's mineral exports have found ready and reliable markets. The record is less impressive for other products, on which both areas must ultimately rely for further growth. As in the case of most newcomers to the market, these tend to fall in agricultural and, in the case of Indonesia, labor-intensive manufacturing categories most susceptible to industrialized countries' import restrictions.

Tariff rates are a major impediment only as regards a few specific products and countries, Japanese duties on agricultural products and plywood and Australian duties on industrial exports being most prominent. Nontariff barriers, on the other hand, are widespread and formidable. According to the World Bank, 19.6 percent of Indonesia's non-oil exports in 1983 were affected by nontariff barriers in the European Economic Community, 15.7 percent in Japan, 11.9 percent in Australia, and 4.2 percent in the United States. Labor-intensive exports, in which Indonesia has a relatively strong comparative advantage and which are required to reduce its employment problems, were predictably worse hit. The United States applied nontariff barriers to 99.7 percent of the total value of Indonesian textiles in June 1984, the EEC 97.5 percent and Japan 60.1 percent. Comparable figures for agricultural exports were 67.3 percent in Japan, 51.6 percent in the EEC and 0.1 percent in the United States.⁴ Industrialized countries' barriers to Indonesian and Melanesian non-mineral exports impede, of course, full acceptance of the market system's fairness.

Industrialized countries' export practices provide a more favorable picture of the market system, but anomalies also exist here as exemplified by the rice trade in Papua New Guinea. Australian rice growers provided this commodity, which has replaced tubers in the Melanesian diet, under multi-year sole source contracts. The suppliers justified mark-ups above the world market price on the costs of providing a guaranteed supply at stable prices to isolated, small markets. This standard excuse for monopolies was given some credence by Papua New Guinea's remarkably rough terrain, scattered population, and lack of transport. When Australian aid was cut, Papua New Guineans looked for savings in their large trade deficit with Australia and fixed on lower priced American rice. Subsequently, new farm legislation in the United States subsidizing exports drove American prices still lower. It also armed Australian rice suppliers, who are

among the few in the world not benefiting from government subsidies, with the argument that long term disruption of the market by American "dumping" would far outweigh short-term price savings. Although major distributors and financial houses dominated by Australian interests have thus far stayed clear of American rice, it has penetrated the periphery of the market, lowering prices for the consumer. Papua New Guineans therefore succeeded in introducing competition in rice by balancing market-distorting practices of one supplier nation with those of another.

Despite its occasionally glaring imperfections, the world market system has been recognized by current Indonesian and Melanesian leaders as the "best game around" by far. This is because their economies have clearly been winners, the bigger players have stuck reasonably close to the rules, and occasional cheating has been open to view. Should their way up the economic ladder appear blocked by export barriers, however, Indonesians and Melanesians would radically change their attitude toward the market system.

The Market System's Contribution to National Security

Strengthening the Indonesian and Melanesian commitment to the market system is the realization that it serves far more than economic needs. Market countries' private and official investments in Indonesia and Melanesia have created a broad community of interests with important strategic and psychological as well as economic implications. This growing interdependence serves Indonesia's and Melanesia's perceived security needs without imposing the political costs of a formal military alliance. And security has figured prominently in Indonesian and Papua New Guinean priorities.

Indonesia's security environment when the New Order assumed power could hardly have been less auspicious. The Indonesian Communist Party, the largest in the non-communist world, had used sympathizers within the military to assassinate five prominent generals, had heavily infiltrated other arms of the government, and was believed to receive the help of China's Maoist regime. Many among the Chinese community, which controlled the bulk of the country's private capital, were believed to be Maoist sympathizers. The Soviet Union, which had supplied most

of Indonesia's military equipment and held Indonesian debt totaling about one billion dollars, was now an enemy. And neighboring countries and their allies, who had been alienated by Sukarno's "Confrontation," had not yet become friends.

While association with the world market system was not the complete solution to these problems, it was a big part of it. The trade and investment relationships Indonesia has built with the United States, Japan, Western Europe, and Australia over the past two decades have provided it far greater security than Sukarno obtained through his "axis" of radical allies.⁵ Interdependence with these powerful market nations permitted the New Order to divert resources from its armed forces to the economic development required to prevent a communist resurgence in the countryside. New Order purchases of military equipment were until recently, in fact, well below those of far smaller countries, including neighboring Singapore with one-fiftieth its population.

Indonesia's emphasis on economic development as the key to security in turn permitted a complete transformation of its relationship with neighboring countries. An Indonesian social scientist recently pointed out that the Suharto government obtained through economic cooperation with its neighbors the goal the earlier Sukarno regime vainly pursued through military confrontation: a role in the region commensurate with its size and population.⁶ He was speaking, of course, of Indonesia joining its former enemies, Singapore and Malaysia, and other neighbors in the Association of Southeast Asian Nations (ASEAN).

Although formally an economic and cultural organization, ASEAN has assumed much broader tasks, including resolution of the situation created by Vietnam's invasion of Cambodia, which most consider the principal regional threat. ASEAN's influence in the United Nations and other international councils together with its members' success in the world market system have made it one of the world's most effective regional organizations. Thus, Indonesia's incorporation into ASEAN and into the world market system seems to mirror in modern form and on a far larger scale the same process which led warring Papua New Guinea Highlands clans to turn to cooperation and competition within the exchange ceremony system.

The evolution of Indonesia's relationships is of vital interest to Melanesians since many of them believe that the expansionist

tendencies of this giant neighbor constitute the primary threat to their security. This belief reinforced their interest in maintaining close ties with their former colonial administrators and other major powers.

Melanesian fears of Indonesia originated in the Sukarno regime's hostile stance toward all its neighbors and its use of military force in asserting Indonesian sovereignty over Irian Jaya, which shares the island of New Guinea with Papua New Guinea. These fears have been sustained by dissident activity in the rugged Irian Jaya border regions, which has caused thousands of villagers to seek refuge in Papua New Guinea and resulted in occasional border violations by both armed dissidents and pursuing Indonesian forces. Since the dissident Papua Freedom Movement (Organisasi Papua Merdeka—OPM) seeks to separate an almost wholly Melanesian province from a nation in which very different cultures predominate, it found at first considerable public sympathy in the three Melanesian nations. The Indonesian government, for its part, suspected that dissidents found safe haven and support on the other side of the border.

These circumstances would seem to be the ingredients from which the world's more volatile and intractable regional disputes are made. Moreover, they are compounded by the antithetical behavior patterns of the two peoples. The competitive, occasionally confrontational demeanor of Melanesians, for example, invariably signals disrespect and hostility to Javanese unaccustomed to their ways. Similarly, Javanese avoidance of overt expression of conflict is easily interpreted as deceit and evidence of malign intent by Melanesians.

In the first years of their relationship, Melanesians and, to a lesser extent, Indonesians appeared to rely on their common ties with other market members to restrain or moderate their neighbor. In recent months, however, the Indonesian and Papua New Guinea governments have seemed intent on solving their differences without outside assistance. They have not only handled inevitable border incidents with skill and tact but have reached agreement on border arrangements which should minimize their occurrence. These encouraging developments are largely the result of both sides communicating good sense and good will across the

cultural barriers separating them. Mutual trust was, however, undoubtedly also bolstered by the knowledge that both countries share friends and stakes in the same international system.

Other Market Members' Stake in Indonesia and Melanesia

Other members of the market system draw commensurate benefits, of course, from Indonesian and Melanesian participation. By placing their substantial resources in the world market, Indonesia and the Melanesian nations have enhanced overall trade. They have opened valuable markets for other members' goods. And both private and public investments in their economies have paid good dividends.

The world market system's interests in Indonesia and Melanesia go well beyond monetary investments and the value of their trade. The dramatic transformation of Indonesia's economy when it turned to world market institutions and members for assistance remains a strong symbol to developing countries of the system's effectiveness. Although the Melanesian story has just begun and is yet to be widely known, New Guinea Highlanders and fellow Melanesians are demonstrating that the market's methods are well suited even to small nations attempting to cover "ten thousand years in a lifetime."

The security ramifications of market system successes in this part of the world are great and perhaps growing. Indonesia's pragmatic policies and economic development have given strong impetus to its market-oriented neighbors. The ASEAN states together have turned one of the world's best known battlegrounds, Southeast Asia, into some of its best investment property. This chain of events has undoubtedly contributed to China's interest in ties to the market system and may be contributing to similar changes within Vietnam. For world and regional powers in the market system, the result is a marked drop in security concerns and costs.

Improving the Market System's Performance

Enhancing the growth and security derived from reliance on the world market system will, of course, require further efforts by all of its members, Third World, industrializing, and industrialized alike. The histories of Indonesian and Melanesian association with the market system suggest these efforts would be well spent if

directed at: creating "coupling devices" to overcome cultural barriers to market cooperation; tailoring the policies of governments and firms to individual cultures and long term goals; and, of course, reducing the practices and relationships constraining market forces.

Cultural Couplings through Education

All members of the market system, from the most industrialized to the least developed, have cultural traits impeding as well as facilitating adherence to market principles. All are to some degree learning from the successes and failures of the others. All have become increasingly interdependent. For these reasons, understanding cultural traits has become as important as understanding market principles in adapting—and helping others to adapt—to the world market environment.

The success of the Indonesian stabilization and rehabilitation program provides a striking illustration of this last point. It was the result of remarkable teamwork achieved by the Indonesian government, bilateral donors, the World Bank, and the International Monetary Fund within the framework of the Intergovernmental Group for Indonesia (IGGI). There were, of course, moments when cultures clashed, when economists differed over remedies, when the interests of donors and recipient did not accord, and when donors competed among themselves for specific projects or approaches. But, in the end, the group produced an extremely effective package combining Indonesian acceptance of market discipline with foreign assistance.

Much more than an aid consortium, the Inter-Governmental Group for Indonesia served as a coupling device transforming industrialized nations' technology, methods, and organizational concepts into forms more easily assimilated and less threatening to a culture which had for centuries shied away from market competition. Indonesian economists with extensive Western training were the principal source of this capability, but area expertise acquired by World Bank and donor nation personnel also contributed.

Influenced in part by the Indonesian experience, Papua New Guinea through the World Bank invited aid donors in 1987 to join in a consultation group to help finance a development investment plan. While Papua New Guinea's needs are neither as great nor as

urgent as were Indonesia's in 1966, an aid consortium would reduce its dependence on Australia, a goal of both countries, and create broader cultural as well as economic ties with market system members.

The influence that a relatively small number of educated citizens have had on the course of Indonesian and Melanesian development supports Nobel Laureate Shultz's view that the wealth of nations is predominantly the acquired abilities of people.⁷ The rapid expansion of educational facilities is among the most impressive feats of the Indonesian and Melanesian governments, but more could be done to assure that investments in human resources at least match the growth of physical capital. Liberal tax and other incentives to private firms providing comprehensive education and training programs, for example, would serve the dual goal of increasing investment in education and orienting its output to the future job market.

The cross-cultural experiences derived from educational exchanges were clearly a key factor in the development of Indonesian and Melanesian policymakers and managers. These exchange programs should grow at least at the same rate as trade. Opportunities for Melanesians to study in the major industrialized nations, including the United States, have been particularly limited and should be increased.⁸

Special efforts may be required to expand exchange opportunities for the private business sector. While overseas training programs are integral to the operations of multinational firms, they are difficult to arrange for the small businesses on which most Third World economies depend. Under a pilot program jointly sponsored by the Indonesian Ministry of Finance and the United States Agency for International Development, the Pragma Corporation is arranging short time management training and corporate internships for senior managers of Indonesian private companies. The experiences of these businessmen and the host corporations should help define efficient ways to create private sector "couplings."

Tailoring Policies to Cultures

Successful market relationships between industrialized nations and developing countries as different as Indonesia and Papua New Guinea have not been and probably never can be mass

produced. Each must be individually crafted by people such as the "Berkeley Mafia" of Indonesia who can fit the principles of economics to the particularities of a given society.

This somewhat self-evident truth has sometimes been overlooked by governments anxious to demonstrate consistency in their foreign policy, to reflect the sentiments of their electorate, or to advance an international political agenda. A well intentioned focus on "human needs" in the 1970s, for example, led the United States to suspend graduate training programs for Indonesian students in the belief that this assistance would go primarily to members of an elite. As noted in Chapter 3, Australian officials cited similar egalitarian principles when postponing the introduction of secondary education in Papua New Guinea. Had this idea prevailed fifteen years earlier in Indonesia, there may well not have been a "Berkeley Mafia," generals schooled in pragmatic economics, or the changes we have witnessed in that country since 1965.

While tailoring programs to the needs of many societies may be difficult for industrial powers accustomed to mass markets and mass production, the United States seems now to be giving it greater attention. In launching a new Private Sector Development Initiative in 1981, the United States Agency for International Development wisely left the choice of projects to individual country missions. This practice might profitably be expanded to most assistance programs of major donors since cultural differences frequently outweigh economic similarities throughout the developing world.

As the economies of Indonesia, Melanesia, and other developing regions become more integrated with the world market, private enterprises will, of course, replace foreign governments as sources of capital and technology. Multinational corporations also have a spotty record in adapting their operations to the environment of developing countries and in effectively utilizing local personnel. A highly successful Indonesian executive with firsthand knowledge of American firms' overseas operations has faulted them for over-centralized and consequently tardy decision-making, a "cookbook approach to management" in which recipes are not varied to reflect differences in local ingredients, "no-risk portfolio management" which sacrifices entrepreneurship and independence, and the use of short-term expatriate managers to

oversee long term interests.⁹ He gives Japanese firms, the largest investors in Indonesia, better marks in most of these categories but lower marks in training local personnel. Most independent observers would probably give the large trading firms serving Melanesia similar scores.

Increased competition will, over time, undoubtedly lead multinationals to adapt their operations to the local environment. Indeed, the fact that the Indonesian critic cited above was chosen to head a large multinational corporation points in this direction.

Freeing Market Forces

While market forces have a way of identifying and sweeping away inefficiencies, bringing them into play is less than a simple task. As the history of Indonesian small loan programs and Melanesian trade stores indicates, strongly entrenched social relationships and practices stand in their way. Removing these constraints is a slow and uneven process. Trade policies of industrializing and industrialized nations today suggest the process is also unending.

The significant barriers industrialized countries have raised to agricultural products and labor intensive manufactures have the same roots as the traditional distortions in the Indonesian and Melanesian economies. Like the Javanese princes who created monopolies to finance supporters and the Melanesian big-men who distributed goods to create personal obligations, Western legislators have given narrow group loyalties precedence over the creation of producers and customers. Industrialized countries' use of nontariff barriers to protect senile industries and industrializing countries' retention of textile export quotas long after their comparative advantage has moved farther up the technological scale have saddled their domestic economies with costly inefficiencies. More importantly, they threaten the growth of the market system itself by limiting room for new arrivals.

Success in the world market does not guarantee sustained commitment to its principles. Like Indonesia's and Melanesia's mineral and agricultural windfalls, it can, on the contrary, impede adjustment to new challenges and opportunities. The United States' triumph in industrializing for a mass market has, for example, sometimes led it to concentrate more on servicing this internal market than on competing in the many smaller foreign markets on

which it has become increasingly dependent. The European Economic Community is justly proud of its common market but is protecting it with measures perpetuating highly inefficient industries and substituting aid for trade with developing states. Japan's social homogeneity, discipline, and integration has not only created extremely efficient industries but has made its internal market resistant to imports and dimmed its perception of the ultimate danger this imbalance creates for the system and thus for its market abroad.

Fortunately, cooperative and competitive links within the market system provide its members with feedback on errant behavior and stimuli for corrective action. While Indonesia has on occasion added its voice to the demands of the New International Economic Order for radical change, it has clearly preferred to pursue more narrowly defined objectives in a more familial setting. It joins with other ASEAN members to meet regularly and separately with its principal trading partners in wide-ranging "dialogues." These meetings provide Indonesia and other ASEAN members an opportunity to comment upon and question the policies of the United States, Japan, the European Economic Community, Canada, Australia, and New Zealand similar to that afforded these countries in the annual meetings of the Inter-Governmental Group on Indonesia.

The Melanesian nations have pursued aid and trade interests with major market nations principally in bilateral channels. The Pacific Forum, which unites the nine independent Pacific island states with Australia and New Zealand, has, however, served as a useful instrument for a number of issues including, in particular, an initially bitter but now amicably resolved fisheries dispute with the United States. Still feeling their way in the market community, the Melanesians will undoubtedly seek additional means of communicating with its principal members.

Frequent, frank dialogues between developing, industrializing, and industrialized states serve both to reveal potentially serious weaknesses in the world market system and to maintain the mutual trust upon which the system ultimately relies. The short history of Indonesia's and Melanesia's association with the market system says encouraging things about diverse cultures' ability to adapt to the market system and the system's ability to accommodate their goals. It also contains strong reminders, however,

that individual economies and the system as a whole are dependent upon continuing evidence that all members are opening and attuning themselves to the world market environment—to its forces of supply and demand and to the cultural differences which affect them.

ENDNOTES

1. Shultz, *Investing in People*, p. 10.
2. Koentjaraningrat, *Javanese Culture*, pp. 398–402.
3. The Gini ratio assigns the number 1 to the accumulation of all wealth in the hands of one individual and 0 to its equal distribution among all individuals.
4. World Bank, "Indonesia: Policies and Prospects for Non-Oil Exports," 31 December 1986, pp. 79–84.
5. Usually defined as including North Korea, Maoist China, Cambodia, and Vietnam.
6. Remarks by Cornelis P. F. Luhulima at the National Defense University Seminar on Pacific Basin Security, Honolulu, 26 February 1987.
7. Shultz, *Investing in People*, p. 140, and "Economics and Politics in Agriculture" in Meier, ed., *Pioneers in Development*, p. 37.
8. Vanuatu's overseas students, virtually all of whom are dependent upon foreign grants, provide a striking example. Although English predominates in Vanuatu's schools and American universities are relatively near, none of the 300 Vanuatuans studying abroad in 1987 were in the United States.
9. Tanri Abeng, "Doing Business with America," (Speech delivered in Jakarta, 1984).

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